Mortgage Banker
February 1981

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REIT's
Revisited

Mortgage Banker

Volume 41 No. 5
February 1981

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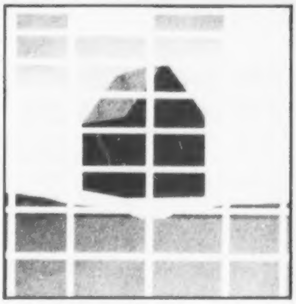
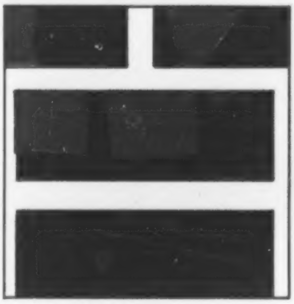
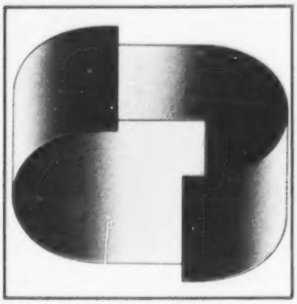


REIT's
Revisited
Page 20



Role of Trust
Real Estate Manager
Page 27



Single-family
Wrap-around Loans
Page 40

PROFILE: Three from GNMA—R. Frederick Taylor, Warren A. Lasko, and James R. Kozuch 12

GNMA Futures Contracts: History and Development 15
Susan M. Bard

REIT's Revisited 20
Willis Andersen, Jr.

The Role and Responsibilities of the Trust Real Estate Manager 27
Robert S. Thorne

Computing the Lender's Yield on an Equity Participation Mortgage 33
Douglas D. Gallagher

Originating Single-family Wrap-around Loans 40
Richard T. Garrigan and Hugh K. Higgins, Jr.

MBA Hosts Nigerian Officials 47

Departments

Starts 7
Industry 9
People 51
Mortgage Market Trends 55
Association 62
Books 64
Classified Advertisements 67
Advertisers Index 68

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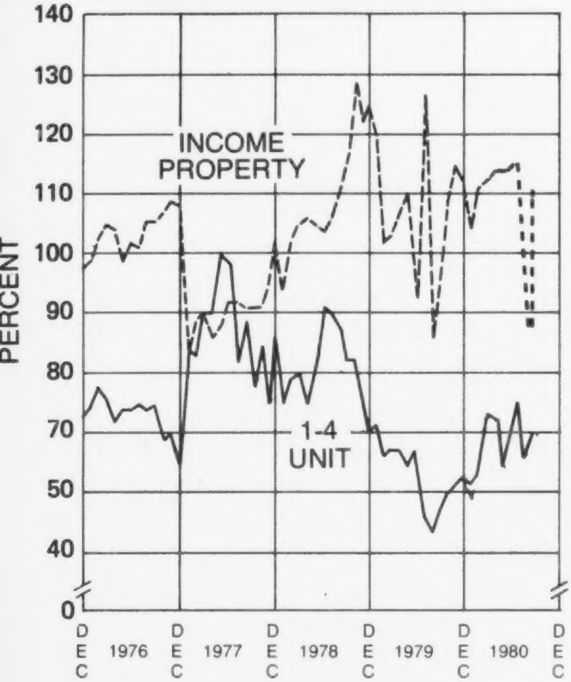
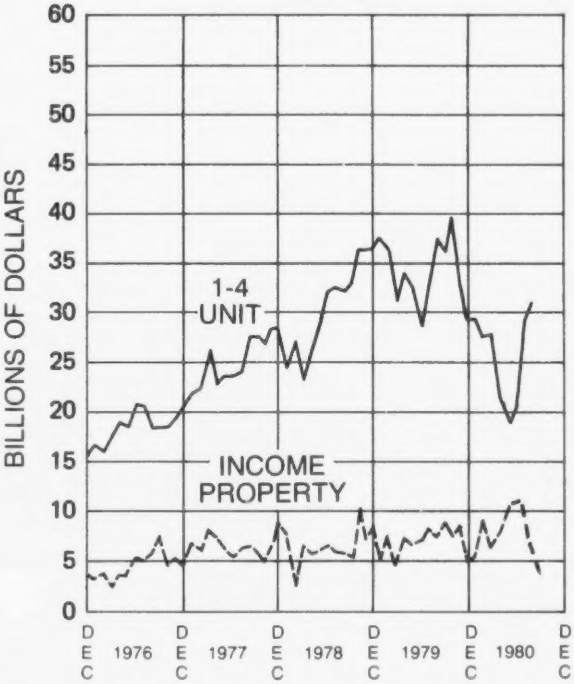
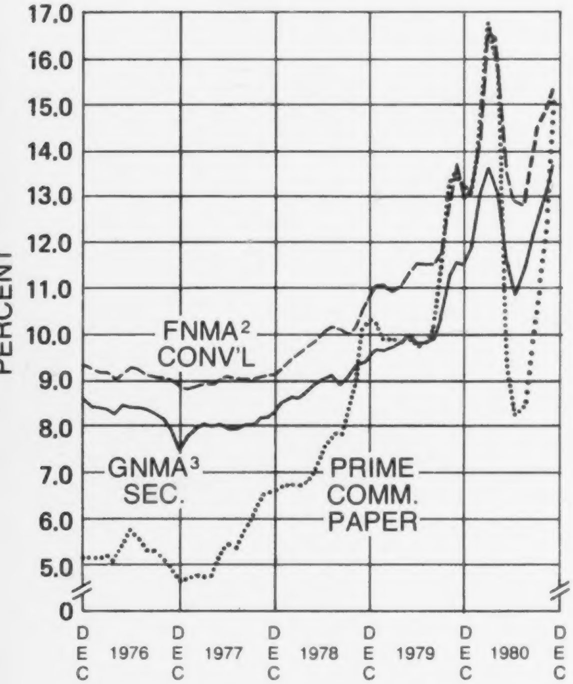
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE[1]



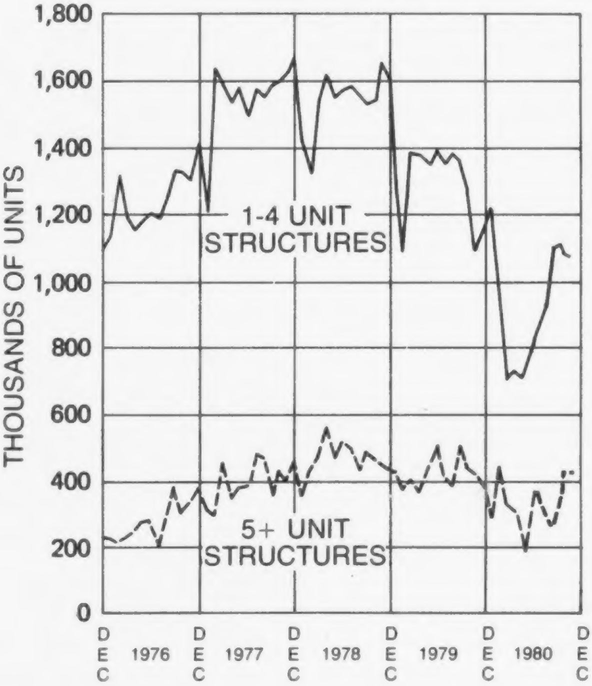
MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED[4]



SELECTED YIELDS



HOUSING STARTS[4]



FOOTNOTES

[1] OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.

[2] WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.

[3] SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY.

[4] SEASONALLY ADJUSTED ANNUAL RATES.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION.

MBA—ECONOMICS DEPARTMENT

MORTGAGE MARKET TRENDS—FEBRUARY 1981

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1979												
AUG	152	111	41	1,654	1,181	473	172	133	39	1,788	1,389	399
SEP	140	90	50	1,775	1,166	609	164	117	47	1,874	1,360	514
OCT	141	96	45	1,542	1,064	478	169	122	47	1,710	1,268	442
NOV	98	64	34	1,263	850	413	119	82	37	1,522	1,094	428
DEC	81	52	29	1,244	899	345	92	65	27	1,548	1,165	383
1980												
JAN	75	52	23	1,264	882	382	73	56	17	1,419	1,219	290
FEB	76	54	22	1,142	801	341	80	55	25	1,330	887	443
MAR	82	56	26	932	627	305	85	59	26	1,041	705	336
APR	77	54	23	789	536	253	96	71	25	1,030	728	302
MAY	77	56	21	825	576	249	92	73	19	913	714	199
JUN	101	69	32	1,078	721	357	116	84	32	1,223	832	391
JUL	113	84	29	1,236	900	336	119	94	25	1,249	951	298
AUG	116	86	30	1,361	988	373	129	104	25	1,416	1,139	277
SEP	143	94	49	1,564	1,060	504	138	107	31	1,545	1,189	356
OCT	127	89	38	1,333	953	380	154	112	42	1,561	1,157	404
NOV	96p	64p	32p	1,371p	938p	433p	112p	81p	31p	1,555p	1,147p	408p
11 months												
1980	1,083	759	324				1,194	894	300			
1979	1,432	1,020	412				1,656	1,254	402			
1978	1,553	1,131	422				1,901	1,471	430			
1977	1,571	1,170	401				1,859	1,478	381			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1979				
AUG	127,149	61,381	17,915	47,853
SEP	128,898	61,308	19,055	48,535
OCT	130,677	60,858	19,005	50,814
NOV	130,358	59,218	19,749	51,391
DEC	132,078	57,753	20,751	53,574
1980				
JAN	137,295	58,439	22,224	56,632
FEB	130,053	54,463	20,664	54,926
MAR	120,768	48,797	19,628	52,343
APR	113,411	42,980	17,723	52,708
MAY	108,104	38,057	17,131	52,916
JUN	104,786	35,750	16,150	52,886
JUL	101,629	37,263	14,922	49,444
AUG	105,162	40,380	15,647	49,135
SEP	109,738	44,448	16,286	48,974
OCT	113,773	48,661	14,938	50,174
NOV	120,026p	50,921p	18,061p	51,044p

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1979				
AUG	377	69	419	6.1
SEP	314	62	414	6.7
OCT	329	55	416	7.6
NOV	255	41	409	10.0
DEC	197	34	403	11.8
1980				
JAN	209	43	393	9.2
FEB	220	44	381	8.7
MAR	243	43	370	8.6
APR	224	36	361	10.2
MAY	219	43	349	8.1
JUN	233	48	342	7.2
JUL	275	55	339	6.2
AUG	286	60	332	5.6
SEP	293	48	339	7.1
OCT	282	44	343	7.8
NOV	210p	38p	343p	9.0p
11 months				
1980	2,694	502		
1979	3,542	681		
1978	3,669	769		
1977	3,053	714		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1979																
AUG	15	30	50	47	147	310	664	533	20	39	74	40	176	388	770	454
SEP	19	29	54	39	217	337	704	517	13	39	67	46	164	392	765	553
OCT	14	28	59	38	151	271	673	447	21	35	73	40	172	317	765	456
NOV	13	16	42	27	152	191	557	363	19	20	53	27	170	249	716	387
DEC	10	12	34	25	144	224	517	359	10	15	40	27	156	326	667	399
1980																
JAN	5	8	39	23	116	221	577	350	6	6	40	22	194	213	673	339
FEB	5	8	39	24	125	178	524	315	3	8	47	23	73	223	701	333
MAR	10	10	40	22	122	120	442	248	7	12	45	21	105	178	511	247
APR	8	12	37	20	86	116	385	202	10	15	48	23	130	156	487	257
MAY	9	13	36	19	98	122	399	206	12	15	45	21	129	122	459	203
JUN	11	15	48	27	114	142	534	288	13	21	58	24	120	179	679	245
JUL	12	20	50	32	119	208	566	343	12	20	60	27	194	193	664	278
AUG	11	19	53	33	117	213	650	381	13	21	63	32	128	224	694	370
SEP	14	26	69	35	143	242	770	409	17	30	61	30	216	288	679	362
OCT	14	26	56	31	139	247	597	350	12	34	75	32	107	310	782	362
NOV	9p	17p	45p	26p	122p	224p	647p	378p	9p	22p	56p	25p	103p	294p	786p	372p
11 months																
1980	106	163	513	294					114	203	599	282				
1979	154	275	569	434					169	297	613	442				
1978	167	351	535	494					183	430	780	507				
1977	169	380	519	506					190	442	726	498				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1979						
AUG	1,301	860	441	159	123	36
SEP	1,283	850	433	181	125	56
OCT	1,274	837	437	174	135	39
NOV	1,226	794	432	165	121	44
DEC	1,140	717	423	174	139	35
1980						
JAN	1,088	678	410	125	94	31
FEB	1,041	644	397	126	89	37
MAR	991	609	382	130	90	40
APR	953	588	365	135	93	42
MAY	918	570	348	120	87	33
JUN	900	566	334	131	89	42
JUL	890	572	318	125	82	43
AUG	887	576	311	128	96	32
SEP	905	601	304	116	81	35
OCT	935	620	315	120	89	31
NOV	938p	623p	315p	113p	81p	32p
11 months						
1980				1,369	971	398
1979				1,698	1,284	414
1978				1,694	1,346	348
1977				1,345	1,100	245

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				FMS Auction Yields on 4 mo. Commitments[6]			Aaa Utility New Issue	U.S. Gov't		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
	FHA New[3]	Conventional		Conventional				FHA/VA	Conv.			10-yr	26-wk			
		New	Existing	New	Existing											
1979																
AUG	10.58	11.10	11.15	11.01	11.14	10.375-10.625	12.52	10.671	11.517	9.97	9.48	8.99	9.425	10.27	110	98
SEP	11.37	11.35	11.35	11.02	11.20	10.625-10.875		11.091	11.741	10.40	9.83	9.33	10.203	11.63	154	107
OCT	n.a.	12.15	12.20	11.18	11.30	11.250-11.500		12.497	12.865	11.30	10.97	10.30	11.660	13.23	n.a.	100
NOV	12.41	12.50	12.50	11.37	11.52	11.500-12.000	15.56	12.797	13.794	11.58	11.42	10.65	11.856	13.57	99	93
DEC	12.24	12.50	12.50	11.64	11.89	11.875-12.000		12.485	12.981	11.56	11.25	10.39	11.847	13.24	99	117
1980																
JAN	12.60	12.80	12.80	11.87	12.10	11.875-12.250		12.930	13.188	11.96	11.73	10.80	11.851	13.04	87	116
FEB	n.a.	14.10	14.10	11.93	12.62	13.000-14.000	15.77	14.589	14.124	13.02	13.57	12.41	12.721	13.78	n.a.	61
MAR	14.63	16.05	16.05	12.62	12.87	n.a.		15.581	16.665	13.69	14.00	12.75	15.100	16.81	63	94
APR	13.45	15.55	15.55	13.03	13.57	n.a.		14.670	16.451	13.17	12.90	11.47	13.618	15.78	55	170
MAY	11.99	13.20	13.20	13.67	14.12	13.000-15.000	18.32	12.855	13.535	11.54	11.53	10.18	9.149	9.49	46	136
JUN	11.85	12.45	12.45	12.69	13.31	12.250-12.750		12.360	12.946	10.89	10.96	9.78	7.218	8.27	89	111
JUL	12.39	12.45	12.45	12.48	12.61	12.500-13.500		12.630	12.807	11.53	11.60	10.25	8.101	8.41	79	128
AUG	13.54	13.25	13.25	12.25	12.26	13.000-14.500	13.16	13.873	13.663	12.33	12.32	11.10	9.443	9.57	122	123
SEP	14.26	13.65	13.70	12.36	12.38	13.000-14.000		14.819	14.450	12.86	12.74	11.51	10.546	10.97	152	135
OCT	14.38	14.10	14.10	12.60	12.64	13.500-14.500		14.965	14.791	13.24	13.18	11.75	11.566	12.52	120	149
NOV	14.47	14.70	14.70	13.08	13.29	n.a.	15.31	15.530	15.280	13.69	13.85	12.68	13.612	15.18	62	101

LONG-TERM MORTGAGE LOANS CLOSED
(Dollars in Millions)

BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
					1-4 Units					5+ Units					Nonresidential				
Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
21,600	3,162	9,859	7,272	1,307	17,157	2,635	8,995	5,420	107	1,249	294	484	224	247	3,193	232	380	1,628	953
20,460	3,498	8,412	7,314	1,236	16,096	2,858	7,705	5,407	126	1,043	309	377	264	93	3,322	332	330	1,643	1,017
21,287	4,232	9,018	6,800	1,237	17,298	3,602	8,289	5,193	214	1,083	217	375	342	149	2,906	413	354	1,265	874
18,956	3,955	7,738	5,820	1,443	14,395	3,032	7,012	4,113	238	1,254	469	351	263	171	3,306	453	375	1,444	1,034
21,394	4,141	8,879	6,869	1,505	16,913	3,690	7,994	5,009	220	921	91	488	191	151	3,560	360	397	1,669	1,134
18,362	3,526	7,230	6,175	1,431	13,823	2,833	6,480	4,260	250	831	148	338	223	122	3,708	545	412	1,692	1,059
15,040	3,338	5,223	5,018	1,461	11,801	2,552	4,584	3,338	427	792	130	270	251	141	3,346	655	369	1,429	893
12,134	2,588	4,070	4,073	1,403	8,731	2,271	3,599	2,703	168	588	82	208	204	94	2,816	236	273	1,166.	1,141
11,975	2,733	4,281	3,802	1,159	8,469	2,055	3,805	2,361	248	919	454	204	148	113	2,587	224	272	1,293	798
14,187	2,632	5,487	4,509	1,559	10,372	2,085	4,955	2,899	433	517	72	224	135	86	3,298	475	308	1,475	1,040
12,363	2,297	4,707	4,111	1,248	8,868	1,662	4,216	2,749	241	614	94	218	137	165	2,881	541	273	1,225	842
9,852	2,080	3,536	3,301	935	6,860	1,606	2,996	2,051	207	429	41	220	102	66	2,563	433	320	1,148	662
10,873	2,830	4,076	2,872	1,095	7,351	1,910	3,533	1,794	114	1,099	596	248	167	88	2,423	324	295	911	893
12,555	3,020	5,468	2,947	1,120	9,560	2,530	4,885	2,041	104	615	100	313	94	108	2,380	390	270	812	908
15,579	3,160	7,722	3,710	1,167	12,675	2,780	7,089	2,732	74	626	60	276	162	128	2,458	320	357	816	965
17,767	3,360	8,597	4,942	868	14,026	2,490	7,818	3,635	83	1,007	440	364	116	87	2,734	430	415	1,191	698

LONG-TERM COMMITMENT ACTIVITY
(Dollars in Millions)

OUTSTANDING					ISSUED DURING MONTH				
Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
84,252	14,123	30,140	13,016	26,973	20,870	3,803	10,387	3,776	2,904
84,305	13,676	29,350	13,155	28,124	18,739	3,163	9,003	3,857	2,716
86,870	16,501	28,818	12,817	28,734	20,028	3,547	8,167	3,266	5,048
85,014	14,153	28,379	13,195	29,287	19,816	5,466	8,852	3,335	2,163
85,090	14,619	28,373	11,974	30,124	16,809	4,073	7,730	2,530	2,476
83,042	14,258	27,084	11,493	30,207	16,943	4,014	7,992	2,916	2,021
79,324	14,824	23,714	11,315	29,471	12,023	3,415	4,741	2,407	1,460
73,350	13,473	21,467	10,504	27,906	8,533	2,608	3,248	1,892	785
67,753	11,983	20,502	8,929	26,339	8,579	2,984	3,510	1,545	540
68,818	12,333	21,351	9,717	25,417	9,400	2,046	5,017	1,637	700
66,122	11,974	20,424	9,215	24,509	9,924	2,372	4,782	1,850	920
60,999	10,500	18,597	8,286	23,616	7,126	1,964	3,147	1,276	739
58,833	10,336	17,762	8,011	22,724	7,051	2,958	2,802	901	390
58,058	9,960	18,848	7,651	21,599	9,046	2,850	4,580	1,250	366
63,525	13,750	21,310	7,769	20,696	12,568	3,050	7,128	1,626	764
65,653	12,640	23,876	9,032	20,105	14,951	2,680	9,510	2,076	685
66,681	12,800	24,476	9,230	20,175	15,381	2,500	8,858	2,676	1,347

MORTGAGE INSURANCE
(Units in thousands, dollars in millions)

APPLICATIONS RECEIVED UNITS			INSURED							
			Total		FHA (203)		VA		Private	
Total	FHA/VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
185	116	69	102	4,246	23	806	24	1,082	55	2,358
166	103	63	103	4,338	24	846	24	1,096	55	2,396
170	112	58	117	4,996	29	1,058	31	1,423	57	2,515
177	118	59	116	5,042	25	912	35	1,695	56	2,435
150	100	50	104	4,646	20	744	39	1,910	45	1,992
155	98	57	104	4,580	29	1,092	22	1,100	53	2,388
116	76	40	102	4,493	27	1,004	29	1,391	46	2,098
79	50	29	91	4,117	20	769	31	1,531	40	1,817
90	66	24	100	4,534	31	1,142	39	1,956	30	1,436
91	63	28	71	3,153	21	753	26	1,301	24	1,099
101	61	40	74	3,371	18	696	27	1,329	29	1,346
90	58	32	76	3,473	20	746	23	1,149	33	1,578
101	76	25	56	2,608	13	483	17	848	26	1,277
105	78	27	50	2,273	13	502	15	741	22	1,030
138	99	39	63	2,904	20	823	16	817	27	1,264
139	89	50	70	3,389	23	958	17	944	30	1,487
136	76	60	94	4,592	23	945	30	1,624	41	2,023

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

FNMA					FHLMC			GNMA	
4-Month Commitments				12 Month Convert Standby	Comm.	Purc.	Sold	Pass-Through Securities	
FHA/VA		Conventional							
Bid	Accept	Bid	Accept					Applications	Issued
162	83	246	184	184	581	636	354	5,105	2,933
1,421	600	527	326	343	437	537	347	4,012	2,640
2,943	1,130	1,050	431	828	504	552	531	6,509	2,639
558	265	366	190	0	221	458	186	7,410	3,250
649	249	413	152	0	199	403	211	3,539	1,894
516	232	443	247	26	296	279	180	4,265	2,611
1,169	564	412	148	225	197	248	207	2,178	1,354
1,267	426	919	240	242	186	193	106	5,124	1,125
494	199	135	66	85	189	231	200	4,509	1,778
609	214	280	109	62	491	176	391	5,281	1,127
603	267	170	76	92	577	225	230	6,627	1,320
1,255	506	229	141	72	702	440	288	5,322	1,874
1,347	775	430	219	112	476	495	320	4,936	2,215
1,268	741	348	210	102	218	521	275	6,850	1,807
584	344	108	64	100	221	398	193	7,757	2,255
331	176	82	69	214	180	231	88	n.a.	n.a.

MORTGAGE BANKERS
CONSTRUCTION AND LAND LOAN ACTIVITY
(Dollars in Millions)

DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
Construction				Land Loans				
Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
277	128	57	92	74	4,048	1,562	1,335	1,151
285	119	40	127	137	3,764	1,617	860	1,287
302	118	41	143	41	4,153	1,261	1,559	1,333
216	84	49	84	36	4,815	1,229	2,015	1,571
249	92	44	113	35	3,552	1,082	981	1,489
231	84	42	105	27	3,554	1,196	1,079	1,279
207	80	49	78	31	4,512	1,160	1,652	1,700
259	91	46	121	24	4,272	1,201	1,585	1,486
191	71	40	81	59	3,484	1,104	1,042	1,338
209	88	47	74	72	4,254	965	1,789	1,500
243	89	47	107	55	4,209	1,016	1,604	1,589
376	100	61	215	73	3,954	1,093	1,322	1,539
310	130	70	110	70	4,390	1,250	1,240	1,830
310p	130p	70p	110p	90p	4,120p	1,480p	1,180p	1,460p
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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t available; p-Preliminary

he National Association of Realtors' "Existing Home Sales" series.

ts cumulative total through the latest month for each column.

lary market gross yields.

mark rates, Citicorp Real Estate, Inc.

[5]Federal Reserve's weighted average interest rate for Commercial Banks.

[6]Weighted average gross yields for accepted bids.

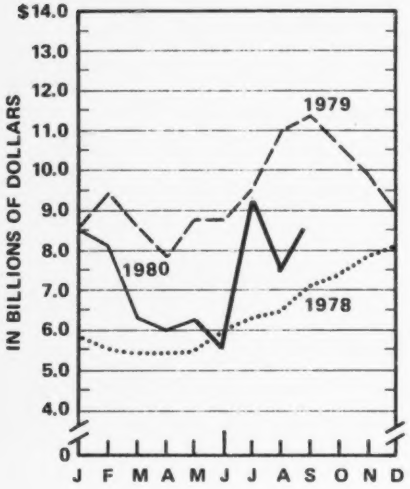
[7]Survey of three New York security dealers. Securities for immediate delivery.

[8]Mutual Savings Banks and Commercial Banks.

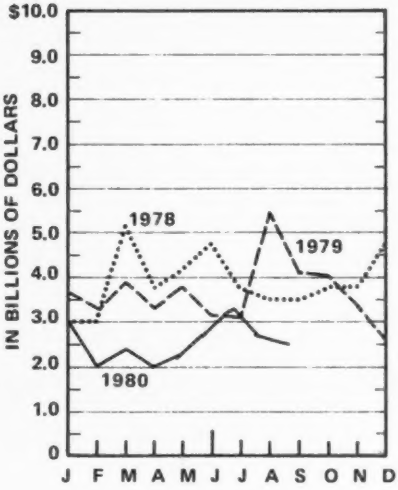
: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate, Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

MORTGAGE BANKING ACTIVITY

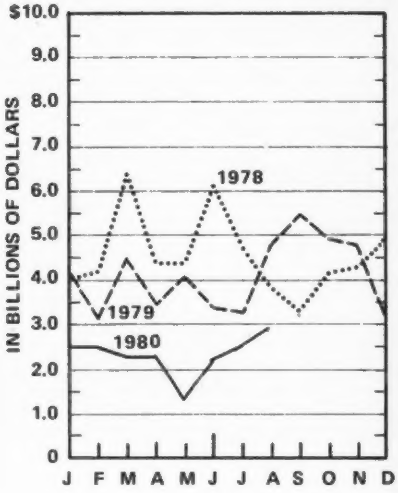
LONG-TERM MORTGAGES



Inventory: Own Account

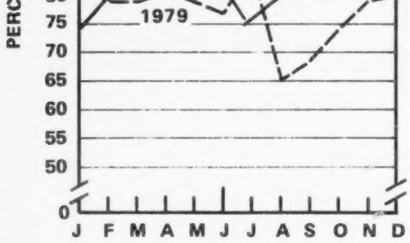


Commitments Issued

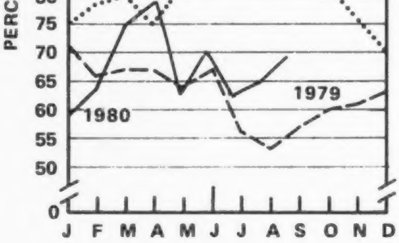


Commitments Received

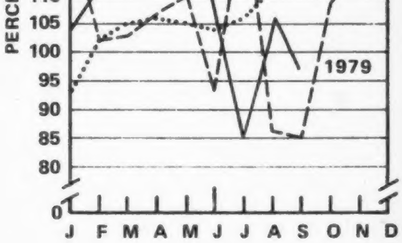
COVERAGE[1]



All Loans



1-To 4-Unit Loans



Income Property Loans

[1] Percent coverage is outstanding long-term commitments received from investors, divided by the sum of outstanding end of month inventory and outstanding long-term commitments issued to borrowers, multiplied by 100.

Note: Data are estimates for all mortgage banking members of MBA. Estimates for the 699 mortgage banking members are based on a sample of firms representing 25 percent of the total long-term originations in the industry. The current month's data are preliminary and will be revised the following month. Once each year when new annual benchmark data for the industry becomes available, the monthly data are again revised to match the annual industry totals published in *Mortgage Banking: Loans Closed and Servicing Volume*. The latest benchmark revisions were made effective with the December 1978 benchmarks.

Source: MBA Economics Department.

MORTGAGE BANKING ACTIVITY
(All dollar amounts are in millions)

LOANS CLOSED

Year and Month	LONG-TERM MORTGAGE LOANS													CONSTRUCTION LOANS
	Seasonally Adjusted				Not Seasonally Adjusted									
						1-4 Units				5 Units or More				
	Total[1]	1-4 Units	5 Units or More	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total
1979														
SEP	$ 3,800	$ 3,020	$ 340	$ 410	$ 3.950	$ 3.030	$1.160	$1.180	$ 690	$ 470	$ 170	$ 300	$ 450	$ 560
OCT	3,740	3,330	180	450	4.140	3.690	1.430	1.440	820	90	30	60	360	1,020
NOV	3,440	2,700	160	550	3.540	2.840	1.000	1.000	840	150	90	60	550	780
DEC	3,040	2,450	100	320	3.350	2.560	810	830	920	130	50	80	660	590
1980														
JAN	$ 2,830	$ 2,440	$ 140	$ 320	$ 2.590	$ 2.270	$ 710	$ 710	$ 850	$ 80	$ 0	$ 80	$ 240	$ 560
FEB	2,900	2,300	580	170	2.740	2.060	740	720	600	460	350	110	220	490
MAR	3,060	2,320	60	470	2.630	2.090	750	710	630	70	40	30	470	460
APR	2,340	1,770	60	610	2,300	1.660	530	470	660	100	20	80	540	510
MAY	2,450	1,740	70	680	2,080	1.610	580	470	560	40	0	40	430	690
JUN	2,620	1,820	400	520	2.760	1.970	950	660	360	420	110	310	370	540
JUL	2,950	2,470	80	480	3.020	2.530	1.170	910	450	100	90	10	390	1,960
AUG	3,030	2,830	57	311	3.160	2.780	1.180	1.060	540	60	60	0	320	1.150
SEP p	3,030	2,300	371	450	3.360	2.490	980	850	660	440	440	0	430	1.450
Year-to-date														
1980	$25,210	$19,990	$1,818	$4.011	$24,640	$19,460	$7,590	$6.560	$5.310	$1.770	$1.110	$ 660	$3.410	$7.810
1979	31,370	25,710	1,790	3,290	30,480	25,170	8,850	8,740	7,580	2.390	1.180	1.210	2.920	8.550
1978	26,150	21,810	1,840	2,580	25,750	21,650	6,700	7,870	7,080	1.760	640	1.120	2.340	5.560

OUTSTANDING END OF MONTH INVENTORY

COVERAGE[2]

Year and Month	LONG TERM MORTGAGE LOANS									CONSTRUCTION LOANS						
		1-4 Units				5 Units or More										
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	1-4 Units	5 Units or More	Non-Res.
1979																
SEP	$11,380	$8,280	$2,640	$2,340	$3,300	$1,990	$1,260	$ 730	$1.110	$2.410	$1.060	$600	$ 750	57%	75%	95%
OCT	10,620	8,940	2,810	2,500	3,630	670	30	640	1.010	2.270	900	560	810	60	124	103
NOV	9,920	8,160	2,690	2,340	3,130	620	30	590	1.140	2.050	810	520	720	61	160	102
DEC	8,960	7,190	2,280	1,960	2,950	660	40	620	1.110	2.240	850	600	790	63	134	104
1980																
JAN	$ 8,500	$6,760	$2,110	$1,690	$2,960	$ 750	$ 50	$700	$ 990	$2.410	$ 870	$590	$950	59%	112%	102%
FEB	8,080	6,440	1,950	1,570	2,920	550	30	520	1.090	2.360	860	560	940	64	136	103
MAR	6,310	4,720	1,220	1,100	2,400	590	40	550	1.000	2,430	930	580	920	75	137	104
APR	5,800	4,120	1,020	870	2,230	680	10	670	1.000	2.310	800	570	940	74	137	103
MAY	5,760	4,050	1,010	830	2,210	780	10	770	930	2.190	780	580	830	59	134	105
JUN	5,690	3,840	1,240	870	1,730	960	20	940	890	2.460	810	590	1.060	70	141	103
JUL	9,260	4,900	1,550	1,170	2,180	2,430	1,500	930	1,930	2.480	760	660	1.060	63	121	85
AUG	7,560	5,070	1,710	1,370	1,990	940	30	910	1,550	2.490	900	610	980	65	123	96
SEP p	8,440	5,810	1,740	1,740	2,330	1,160	10	1,150	1,470	2.580	850	690	1.040	68	102	94

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH							
	To Borrowers				From Investors				To Borrowers				From Investors			
	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.
1979																
SEP	$ 4,070	$ 2,640	$ 460	$ 970	$ 5.510	$ 3,750	$ 610	$ 1.150	$10.100	$5,020	$1,780	$3,300	$14,630	$7,640	$2,810	$4.180
OCT	4,020	3,220	270	530	4,920	3,920	100	900	8,770	4,900	810	3,060	14,260	8,230	1,840	4.190
NOV	3,430	2,490	150	790	4,800	3,160	470	1,170	8,920	4,630	800	3,490	14,830	7,850	2,250	4,730
DEC	2,610	1,960	70	580	3,190	2,280	60	850	7,960	3,860	770	3,330	13,480	6,930	1,920	4,630
1980																
JAN	$ 2,990	$ 2,690	$ 100	$ 200	$ 2,500	$ 1,950	$ 330	$ 220	$ 7,760	$4,270	$ 540	$2,950	$11,980	$6,540	$1,440	$4,000
FEB	2,050	1,820	60	170	2,490	2,210	80	200	7,380	3,780	740	2,860	12,340	6,530	1,750	4,060
MAR	2,380	2,040	90	250	2,260	1,830	170	260	7,120	3,680	710	2,730	11,980	6,330	1,780	3,870
APR	1,970	1,680	40	250	2,180	1,500	170	510	$ 6,080	3,170	520	2,390	10,510	5,370	1,650	3,490
MAY	2,960	2,730	90	140	1,550	1,290	100	160	7,120	3,820	570	2,730	10,340	4,680	1,810	3,850
JUN	2,840	2,480	160	200	2,280	1,430	540	310	7,670	4,320	830	2,520	12,850	6,810	2,530	3,510
JUL	3,050	2,850	70	130	2,540	2,190	150	200	9,190	5,000	1,440	2,750	13,750	6,520	3,250	3,980
AUG	2,680	2,090	190	400	2,990	2,240	110	640	8,200	4,830	950	2,420	12,640	6,480	2,330	3,830
SEP p	2,500	1,670	260	570	3,280	2,360	300	620	7,820	4,390	890	2,540	12,800	6,940	2,100	3,760
Year-to-date																
1980	$23,420	$20,050	$1,060	$2,310	$22,070	$17,000	$1,950	$ 3.120								
1979	34,380	25,440	1,740	7,200	36,440	25,920	2,560	7,960								
1978	34,540	23,910	1,370	9,260	41,310	28,130	2,100	11,080								

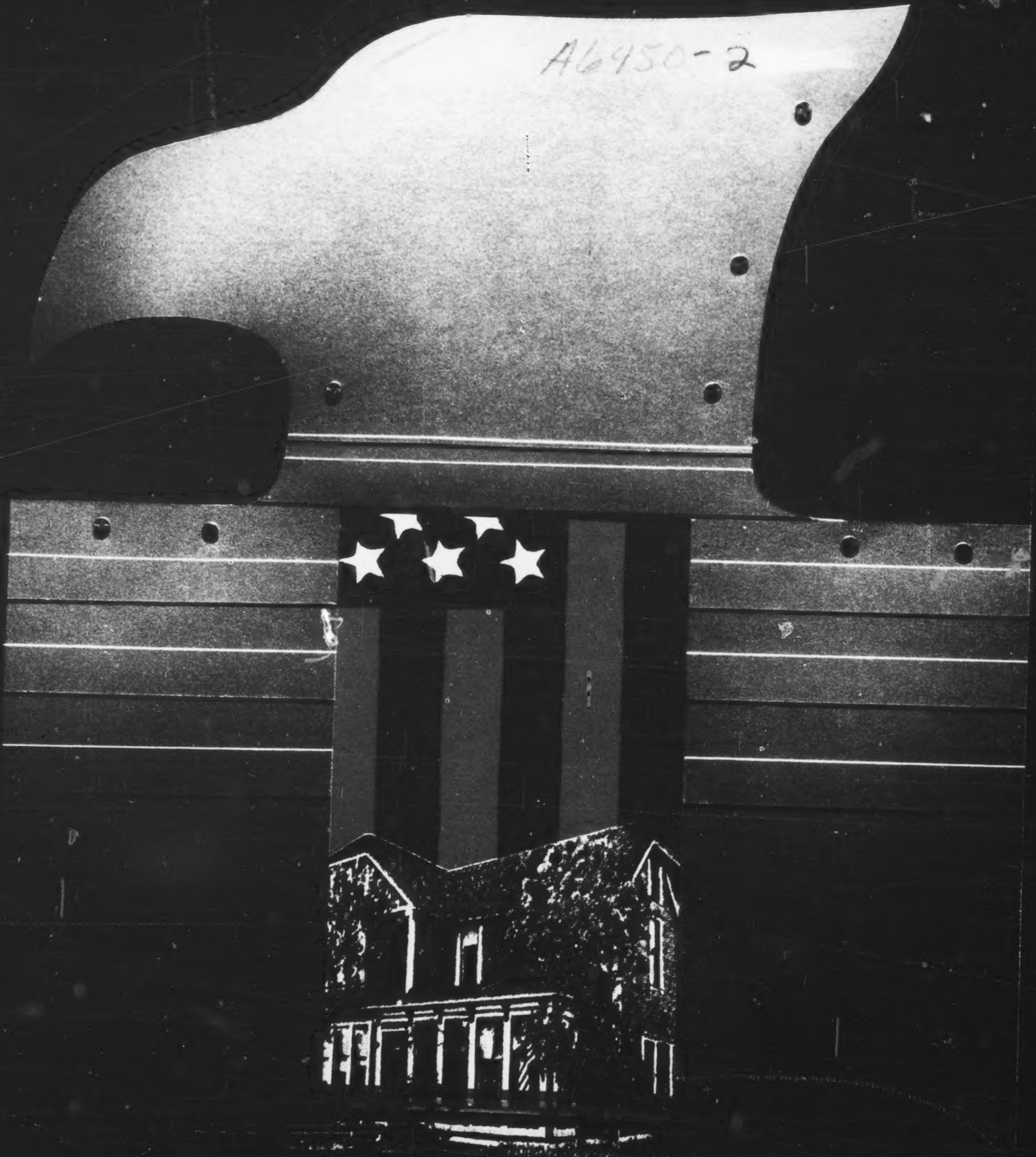
[1] Total is seasonally adjusted separately from components. Total, therefore, may not equal the sum of the parts.

[2] Percent coverage is outstanding long-term commitments received from investors, divided by the sum of outstanding end of month inventory and outstanding long-term commitments issued to borrowers, multiplied by 100.

Note: All series labeled "non-residential" are also inclusive of farm data.

Mortgage Banker

MARCH 1981



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Federal Focus

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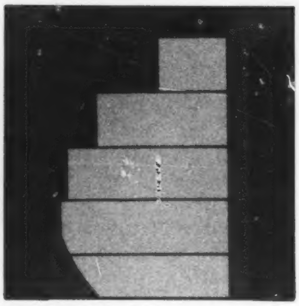
Regulatory
Update: 1981
Page 13

New FHLMC
Programs
Page 21



Lenders Seek
Alternatives
Page 36

Federal Focus

Regulatory Update: 1981 — 13
Peter E. Kaplan

The Mortgage Corporation Announces New Programs — 21
Philip R. Brinkerhoff

New Market Opens for Home Improvement Loans — 27

What is a Point Really Worth? — 31
Daniel J. O'Connell

Lenders Seek New Financing Alternatives — 36
William S. Reiling

Departments

Starts 5
Industry 7
Mortgage Market Trends 41
People 49
Association 55
Classified Advertisements 59
Advertisers Index 60

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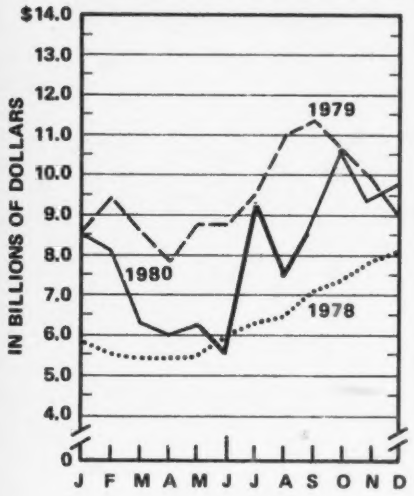
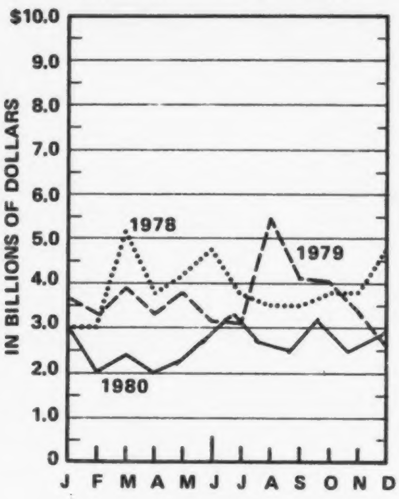
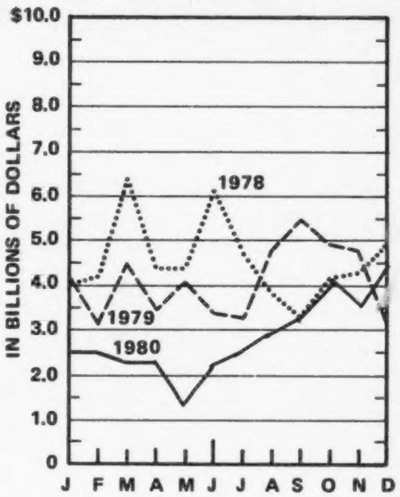
MORTGAGE BANKING ACTIVITY

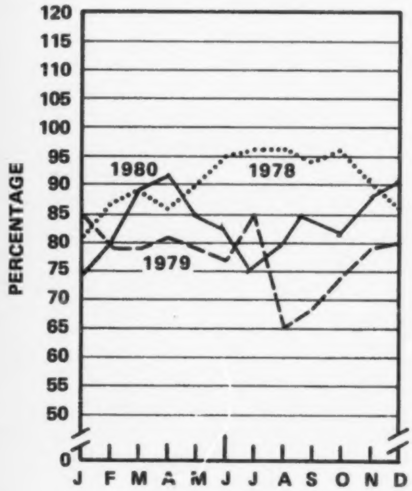
LONG-TERM MORTGAGES

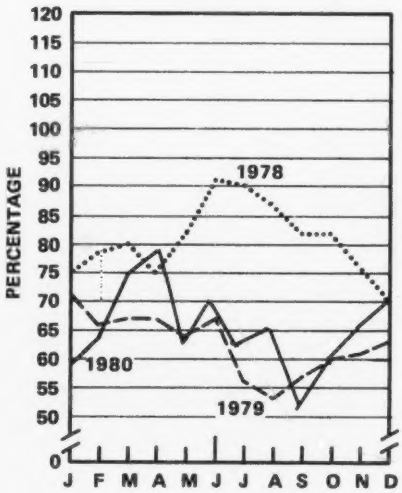

Inventory: Own Account

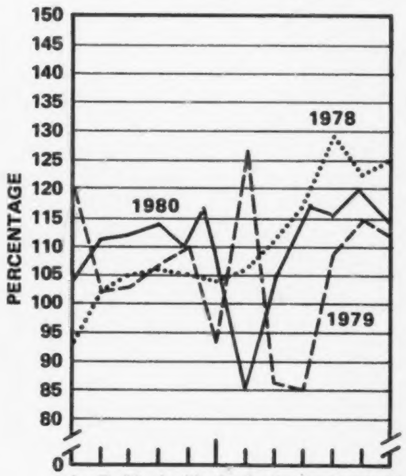

Commitments Issued


Commitments Received

COVERAGE[1]


All Loans


1-To 4-Unit Loans


Income Property Loans

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[1] Percent coverage is outstanding long-term commitments received from investors, divided by the sum of outstanding end of month inventory and outstanding long-term commitments issued to borrowers, multiplied by 100.

Note: Data are estimates for all mortgage banking members of MBA. Estimates for the 699 mortgage banking members are based on a sample of firms representing 25 percent of the total long-term originations in the industry. The current month's data are preliminary and will be revised the following month. Once each year when new annual benchmark data for the industry becomes available, the monthly data are again revised to match the annual industry totals published in *Mortgage Banking: Loans Closed and Servicing Volume*. The latest benchmark revisions were made effective with the December 1978 benchmarks.

Source: MBA Economics Department.

MORTGAGE BANKING ACTIVITY
(All dollar amounts are in millions)

LOANS CLOSED

Year and Month	LONG-TERM MORTGAGE LOANS													CONSTRUCTION LOANS
	Seasonally Adjusted				Not Seasonally Adjusted									
						1-4 Units				5 Units or More				
	Total[1]	1-4 Units	5 Units or More	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total
1979														
DEC	3,040	2,450	100	320	3,350	2,560	810	830	920	130	50	80	660	590
1980														
JAN	$ 2,830	$ 2,440	$ 140	$ 320	$ 2,590	$ 2,270	$ 710	$ 710	$ 850	$ 80	$ 0	$ 80	$ 240	$ 560
FEB	2,900	2,300	580	170	2,740	2,060	740	720	600	460	350	110	220	490
MAR	3,060	2,320	60	470	2,630	2,090	750	710	630	70	40	30	470	460
APR	2,340	1,770	60	610	2,300	1,660	530	470	660	100	20	80	540	510
MAY	2,450	1,740	70	680	2,080	1,610	580	470	560	40	0	40	430	690
JUN	2,620	1,820	400	520	2,760	1,970	950	660	360	420	110	310	370	540
JUL	2,950	2,470	80	480	3,020	2,530	1,170	910	450	100	90	10	390	1,960
AUG	3,030	2,830	60	310	3,160	2,780	1,180	1,060	540	60	60	0	320	1,150
SEP	2,950	2,270	370	390	3,280	2,460	1,000	880	580	440	440	0	380	380
OCT	2,760	2,160	470	460	3,030	2,350	880	780	690	240	170	70	440	500
NOV	2,300	1,680	190	440	2,280	1,690	580	550	560	190	160	30	400	300
DEC p	2,140	1,740	200	180	2,490	1,880	720	600	560	250	210	40	360	440
Year-to-date														
1980	$32,320	$25,540	$2,690	$5,040	$32,360	$25,350	$9,790	$8,520	$7,040	$2,450	$1,650	$ 800	$4,560	$7,980
1979	41,590	34,190	2,520	4,600	41,410	34,160	12,090	11,910	10,160	2,760	1,350	1,410	4,490	11,210
1978	37,300	30,920	2,560	3,980	37,770	31,150	10,040	11,000	10,110	2,450	920	1,530	4,170	7,520

OUTSTANDING END OF MONTH INVENTORY

COVERAGE[2]

Year and Month	LONG TERM MORTGAGE LOANS									CONSTRUCTION LOANS				COVERAGE[2]		
		1-4 Units				5 Units or More										
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	1-4 Units	5 Units or More	Non-Res.
1979																
DEC	8,960	7,190	2,280	1,960	2,950	660	40	620	1,110	2,240	850	600	790	63	134	104
1980																
JAN	$ 8,500	$6,760	$2,110	$1,690	$2,960	$ 750	$ 50	$700	$ 990	$2,410	$ 870	$590	$950	59%	112%	102%
FEB	8,080	6,440	1,950	1,570	2,920	550	30	520	1,090	2,360	860	560	940	64	136	103
MAR	6,310	4,720	1,220	1,100	2,400	590	40	550	1,000	2,430	930	580	920	75	137	104
APR	5,800	4,120	1,020	870	2,230	680	10	670	1,000	2,310	800	570	940	74	137	103
MAY	5,760	4,050	1,010	830	2,210	780	10	770	930	2,190	780	580	830	59	134	105
JUN	5,690	3,840	1,240	870	1,730	960	20	940	890	2,460	810	590	1,060	70	141	103
JUL	9,260	4,900	1,550	1,170	2,180	2,430	1,500	930	1,930	2,480	760	660	1,060	63	121	85
AUG	7,560	5,070	1,710	1,370	1,990	940	30	910	1,550	2,490	900	610	980	65	123	96
SEP	9,230	6,910	2,200	2,040	2,670	940	30	910	1,380	2,580	880	650	1,050	53	113	120
OCT	10,530	6,710	2,030	1,730	2,950	2,390	1,510	880	1,430	2,520	810	690	1,020	60	116	116
NOV	9,480	5,810	1,620	1,350	2,840	2,340	1,550	790	1,330	2,960	820	860	1,280	66	113	129
DEC p	9,700	5,860	1,540	1,300	3,020	2,540	1,530	1,010	1,300	3,700	990	1,080	1,630	71	106	125

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH							
	To Borrowers				From Investors				To Borrowers				From Investors			
	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.
1979																
DEC	2,610	1,960	70	580	3,190	2,280	60	850	7,960	3,860	770	3,330	13,480	6,930	1,920	4,630
1980																
JAN	$ 2,990	$ 2,690	$ 100	$ 200	$ 2,500	$ 1,950	$ 330	$ 220	$ 7,760	$4,270	$ 540	$2,950	$11,980	$6,540	$1,440	$4,000
FEB	2,050	1,820	60	170	2,490	2,210	80	200	7,380	3,780	740	2,860	12,340	6,530	1,750	4,060
MAR	2,380	2,040	90	250	2,260	1,830	170	260	7,120	3,680	710	2,730	11,980	6,330	1,780	3,870
APR	1,970	1,680	40	250	2,180	1,500	170	510	6,080	3,170	520	2,390	10,510	5,370	1,650	3,490
MAY	2,960	2,730	90	140	1,550	1,290	100	160	7,120	3,820	570	2,730	10,340	4,680	1,810	3,850
JUN	2,840	2,480	160	200	2,280	1,430	540	310	7,670	4,320	830	2,520	12,850	6,810	2,530	3,510
JUL	3,050	2,850	70	130	2,540	2,190	150	200	9,190	5,000	1,440	2,750	13,750	6,520	3,250	3,980
AUG	2,680	2,090	190	400	2,990	2,240	110	640	8,200	4,830	950	2,420	12,640	6,480	2,330	3,830
SEP	2,700	1,970	200	530	3,180	2,230	220	730	7,620	4,470	880	2,270	12,530	6,080	2,050	4,400
OCT	3,230	2,320	70	840	4,020	2,100	310	1,610	7,330	4,060	780	2,490	14,670	6,440	3,680	4,550
NOV	2,540	1,460	680	400	3,790	2,190	700	900	7,230	3,920	1,160	2,150	14,770	6,380	3,960	4,430
DEC p	2,960	1,540	520	900	4,310	1,560	710	2,040	6,360	2,770	1,530	2,060	14,620	6,110	4,320	4,190
Year-to-date																
1980	$32,350	$25,670	$2,270	$4,410	$34,090	$22,720	$3,590	$ 7,780								
1979	44,430	33,110	2,220	9,100	49,350	35,280	3,190	10,880								
1978	46,920	32,930	1,690	12,300	54,830	37,690	2,710	14,430								

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[1] Total is seasonally adjusted separately from components. Total, therefore, may not equal the sum of the parts.

[2] Percent coverage is outstanding long-term commitments received from investors, divided by the sum of outstanding end of month inventory and outstanding long-term commitments issued to borrowers, multiplied by 100.

Note: All series labeled 'non-residential' are also inclusive of farm data.

MORTGAGE MARKET TRENDS—MARCH 1981

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1979												
SEP	140	90	50	1,775	1,166	609	164	117	47	1,874	1,360	514
OCT	141	96	45	1,542	1,064	478	169	122	47	1,710	1,268	442
NOV	98	64	34	1,263	850	413	119	82	37	1,522	1,094	428
DEC	81	52	29	1,244	899	345	92	65	27	1,548	1,165	383
1980												
JAN	75	52	23	1,264	882	382	73	56	17	1,419	1,219	290
FEB	76	54	22	1,142	801	341	80	55	25	1,330	887	443
MAR	82	56	26	932	627	305	85	59	26	1,041	705	336
APR	77	54	23	789	536	253	96	71	25	1,030	728	302
MAY	77	56	21	825	576	249	92	73	19	913	714	199
JUN	101	69	32	1,078	721	357	116	84	32	1,223	832	391
JUL	113	84	29	1,236	900	336	119	94	25	1,249	951	298
AUG	116	86	30	1,361	988	373	129	104	25	1,416	1,139	277
SEP	143	94	49	1,564	1,060	504	138	107	31	1,545	1,189	356
OCT	127	89	38	1,333	953	380	154	112	42	1,561	1,157	404
NOV	95	65	30	1,355	953	402	112	82	30	1,563	1,167	396
DEC	88p	55p	33p	1,233p	865p	368p	95p	63p	32p	1,548p	1,076p	472p
12 months												
1980	1,170	814	356				1,292	961	331			
1979	1,552	1,107	445				1,745	1,316	429			
1978	1,800	1,313	487				2,020	1,558	462			
1977	1,690	1,247	443				1,987	1,573	414			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1979				
SEP	128,898	61,308	19,055	48,535
OCT	130,677	60,858	19,005	50,814
NOV	130,358	59,218	19,749	51,391
DEC	132,078	57,753	20,751	53,574
1980				
JAN	137,295	58,439	22,224	56,632
FEB	130,053	54,463	20,664	54,926
MAR	120,768	48,797	19,628	52,343
APR	113,411	42,980	17,723	52,708
MAY	108,104	38,057	17,131	52,916
JUN	104,786	35,750	16,150	52,886
JUL	101,629	37,263	14,922	49,444
AUG	105,162	40,380	15,647	49,135
SEP	109,738	44,448	16,286	48,974
OCT	113,773	48,661	14,938	50,174
NOV	120,271	50,994	18,198	51,079
DEC	125,842p	52,726p	19,379p	53,738p

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1979				
SEP	314	62	414	6.7
OCT	329	55	416	7.6
NOV	255	41	409	10.0
DEC	197	34	403	11.8
1980				
JAN	209	43	393	9.2
FEB	220	44	381	8.7
MAR	243	4[illegible]	370	8.6
APR	224	36	361	10.2
MAY	219	43	349	8.1
JUN	233	48	342	7.2
JUL	275	55	339	6.2
AUG	286	60	332	5.6
SEP	293	48	339	7.1
OCT	282	44	343	7.8
NOV	210	37	344	9.2
DEC	187p	34p	343p	10.1p
12 months				
1980	2,881	535		
1979	3,701	709		
1978	3,863	817		
1977	3,547	819		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1979																
SEP	19	29	54	39	217	337	704	517	13	39	67	46	164	392	765	553
OCT	14	28	59	38	151	271	673	447	21	35	73	40	172	317	765	456
NOV	13	16	42	27	152	191	557	363	19	20	53	27	170	249	716	387
DEC	10	12	34	25	144	224	517	359	10	15	40	27	156	326	667	399
1980																
JAN	5	8	39	23	116	221	577	350	6	6	40	22	194	213	673	339
FEB	5	8	39	24	125	178	524	315	3	8	47	23	73	223	701	333
MAR	10	10	40	22	122	120	442	248	7	12	45	21	105	178	511	247
APR	8	12	37	20	86	116	385	202	10	15	48	23	130	156	487	257
MAY	9	13	36	19	98	122	399	206	12	15	45	21	129	122	459	203
JUN	11	15	48	27	114	142	534	288	13	21	58	24	120	179	679	245
JUL	12	20	50	32	119	208	566	343	12	20	60	27	194	193	664	278
AUG	11	19	53	33	117	213	650	381	13	21	63	32	128	224	694	370
SEP	14	26	69	35	143	242	770	409	17	30	61	30	216	288	679	362
OCT	14	26	56	31	139	247	597	350	12	34	75	32	107	310	782	362
NOV	10	17	44	25	124	225	639	367	10	23	55	24	111	305	783	364
DEC	9p	12p	47p	21p	109p	209p	635p	280p	9p	12p	54p	21p	128p	248p	860p	312p
12 months																
1980	118	186	558	312					124	217	651	300				
1979	167	289	628	468					178	349	748	471				
1978	194	388	668	551					200	451	824	545				
1977	182	402	561	545					202	465	783	538				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1979						
SEP	1,283	850	433	181	125	56
OCT	1,274	837	437	174	135	39
NOV	1,226	794	432	165	121	44
DEC	1,140	717	423	174	139	35
1980						
JAN	1,088	678	410	125	94	31
FEB	1,041	644	397	126	89	37
MAR	991	609	382	130	90	40
APR	953	588	365	135	93	42
MAY	918	570	348	120	87	33
JUN	900	566	334	131	89	42
JUL	890	572	318	125	82	43
AUG	887	576	311	128	96	32
SEP	905	601	304	116	81	35
OCT	935	620	315	120	89	31
NOV	932	632	312	114	81	33
DEC	903p	589p	314p	126p	96p	30p
12 months						
1980				1,496	1,067	429
1979				1,871	1,426	445
1978				1,868	1,486	382
1977				1,657	1,353	304

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				FMS Auction Yields on 4 mo. Commitments[6]			Aaa Utility New Issue	U.S. Gov't		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
	FHA New[3]	Conventional		Conventional				FHA/VA	Conv.			10-yr	26-wk			
		New	Existing	New	Existing											
1979																
SEP	11.37	11.35	11.35	11.02	11.20	10.625-10.875		11.091	11.741	10.40	9.83	9.33	10.203	11.63	154	107
OCT	n.a.	12.15	12.20	11.18	11.30	11.250-11.500		12.497	12.865	11.30	10.97	10.30	11.660	13.23	n.a.	100
NOV	12.41	12.50	12.50	11.37	11.52	11.500-12.000		12.797	13.794	11.58	11.42	10.65	11.856	13.57	99	93
DEC	12.24	12.50	12.50	11.64	11.89	11.875-12.000	15.56	12.485	12.981	11.56	11.25	10.39	11.847	13.24	99	117
1980																
JAN	12.60	12.80	12.80	11.87	12.10	11.875-12.250		12.930	13.188	11.96	11.73	10.80	11.851	13.04	87	116
FEB	n.a.	14.10	14.10	11.93	12.62	13.000-14.000		14.589	14.124	13.02	13.57	12.41	12.721	13.78	n.a.	61
MAR	14.63	16.05	16.05	12.62	12.87	n.a.	15.77	15.581	16.665	13.69	14.00	12.75	15.100	16.81	63	94
APR	13.45	15.55	15.55	13.03	13.57	n.a.		14.670	16.451	13.17	12.90	11.47	13.618	15.78	55	170
MAY	11.99	13.20	13.20	13.67	14.12	13.000-15.000		12.855	13.535	11.54	11.53	10.18	9.149	9.49	46	136
JUN	11.85	12.45	12.45	12.69	13.31	12.250-12.750	18.32	12.360	12.946	10.89	10.96	9.78	7.218	8.27	89	111
JUL	12.39	12.45	12.45	12.48	12.61	12.500-13.500		12.630	12.807	11.53	11.60	10.25	8.101	8.41	79	128
AUG	13.54	13.25	13.25	12.25	12.26	13.000-14.500		13.873	13.663	12.33	12.32	11.10	9.443	9.57	122	123
SEP	14.26	13.65	13.70	12.36	12.38	13.000-14.000	13.16	14.819	14.450	12.86	12.74	11.51	10.546	10.97	152	135
OCT	14.38	14.10	14.10	12.60	12.64	13.500-14.500		14.965	14.791	13.24	13.18	11.75	11.566	12.52	120	149
NOV	14.47	14.70	14.70	13.08	13.29	n.a.		15.530	15.280	13.69	13.85	12.68	13.612	15.18	62	101
DEC	14.08	15.05	15.05	13.28	13.58	n.a.	15.31	15.192	15.568	13.71	14.51	12.84	14.770	18.07	43	87

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1979																				
JUL	20,460	3,498	8,412	7,314	1,236	16,096	2,858	7,705	5,407	126	1,043	309	377	264	93	3,322	332	330	1,643	1,017
AUG	21,287	4,232	9,018	6,800	1,237	17,298	3,602	8,289	5,193	214	1,083	217	375	342	149	2,906	413	354	1,265	874
SEP	18,956	3,955	7,738	5,820	1,443	14,395	3,032	7,012	4,113	238	1,254	469	351	263	171	3,306	453	375	1,444	1,034
OCT	21,394	4,141	8,879	6,869	1,505	16,913	3,690	7,994	5,009	220	921	91	488	191	151	3,560	360	397	1,669	1,134
NOV	18,362	3,526	7,230	6,175	1,431	13,823	2,833	6,480	4,260	250	831	148	338	223	122	3,708	545	412	1,692	1,059
DEC	15,040	3,338	5,223	5,018	1,461	11,801	2,552	4,584	3,338	427	792	130	270	251	141	3,346	655	369	1,429	893
1980																				
JAN	12,134	2,588	4,070	4,073	1,403	8,731	2,271	3,589	2,703	168	588	82	208	204	94	2,816	236	273	1,166	1,141
FEB	11,975	2,733	4,281	3,802	1,159	8,469	2,055	3,805	2,361	248	919	454	204	148	113	2,587	224	272	1,293	798
MAR	14,187	2,632	5,487	4,509	1,559	10,372	2,085	4,955	2,899	433	517	72	224	135	86	3,298	475	308	301,475	1,040
APR	12,363	2,297	4,707	4,111	1,248	8,868	1,662	4,216	2,749	241	614	94	218	137	165	2,881	541	273	1,225	842
MAY	9,852	2,080	3,536	3,301	935	6,860	1,606	2,996	2,051	207	429	41	220	102	66	2,563	433	320	1,148	662
JUN	10,873	2,830	4,076	2,872	1,095	7,351	1,910	3,533	1,794	114	1,099	596	248	167	88	2,423	324	295	911	893
JUL	12,555	3,020	5,468	2,947	1,120	9,560	2,530	4,885	2,041	104	615	100	313	94	108	2,380	390	270	812	908
AUG	15,579	3,160	7,722	3,710	1,167	12,675	2,780	7,089	2,732	74	626	60	276	162	128	2,458	320	357	816	965
SEP	17,767	3,360	8,597	4,942	868	14,026	2,490	7,818	3,635	83	1,007	440	364	116	87	2,734	430	415	1,191	698
OCT	17,746	3,030	8,423	5,151	1,142	13,806	2,350	7,616	3,786	72	926	240	327	183	176	2,996	440	480	1,182	894

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1979										
JUN	84,305	13,676	29,350	13,155	28,124	18,739	3,163	9,003	3,857	2,716
JUL	86,870	16,501	28,818	12,817	28,734	20,028	3,547	8,167	3,266	5,048
AUG	85,014	14,153	28,379	13,195	29,287	19,816	5,466	8,852	3,335	2,163
SEP	85,090	14,619	28,373	11,974	30,124	16,809	4,073	7,730	2,530	2,476
OCT	83,042	14,258	27,084	11,493	30,207	16,943	4,014	7,992	2,916	2,021
NOV	79,324	14,824	23,714	11,315	29,471	12,023	3,415	4,741	2,407	1,460
DEC	73,350	13,473	21,467	10,504	27,906	8,533	2,608	3,248	1,892	785
1980										
JAN	67,753	11,983	20,502	8,929	26,339	8,579	2,984	3,510	1,545	540
FEB	68,818	12,333	21,351	9,717	25,417	9,400	2,046	5,017	1,637	700
MAR	66,122	11,974	20,424	9,215	24,509	9,924	2,372	4,782	1,850	920
APR	60,999	10,500	18,597	8,286	23,616	7,126	1,964	3,147	1,276	739
MAY	58,833	10,336	17,762	8,011	22,724	7,051	2,958	2,802	901	390
JUN	58,058	9,960	18,848	7,651	21,599	9,046	2,850	4,580	1,250	366
JUL	63,525	13,750	21,310	7,769	20,696	12,568	3,050	7,128	1,626	764
AUG	65,653	12,640	23,876	9,032	20,105	14,951	2,680	9,510	2,076	685
SEP	66,681	12,800	24,476	9,230	20,175	15,381	2,500	8,858	2,676	1,347
OCT	66,925	14,670	23,641	8,899	19,715	13,557	3,230	7,305	2,142	880

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/ VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1979											
JUN	166	103	63	103	4,338	24	846	24	1,096	55	2,396
JUL	170	112	58	117	4,996	29	1,058	31	1,423	57	2,515
AUG	177	118	59	116	5,042	25	912	35	1,695	56	2,435
SEP	150	100	50	104	4,646	20	744	39	1,910	45	1,992
OCT	155	98	57	104	4,580	29	1,092	22	1,100	53	2,388
NOV	116	76	40	102	4,493	27	1,004	29	1,391	46	2,098
DEC	79	50	29	91	4,117	20	769	31	1,531	40	1,817
1980											
JAN	90	66	24	100	4,534	31	1,142	39	1,956	30	1,436
FEB	91	63	28	71	3,153	21	753	26	1,301	24	1,099
MAR	101	61	40	74	3,371	18	696	27	1,329	29	1,346
APR	90	58	32	76	3,473	20	746	23	1,149	33	1,578
MAY	101	76	25	56	2,608	13	483	17	848	26	1,277
JUN	105	78	27	50	2,273	13	502	15	741	22	1,030
JUL	138	99	39	63	2,904	20	823	16	817	27	1,264
AUG	139	89	50	70	3,389	23	958	17	944	30	1,487
SEP	136	76	60	94	4,592	23	945	30	1,624	41	2,023
OCT	115	59	56	95	4,580	24	990	21	1,133	50	2,457

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA					FHLMC			GNMA	
	4-Month Commitments				12 Month Convert Standby	Comm.	Purc.	Sold	Pass-Through Securities	
	FHA/VA Bid	FHA/VA Accept	Conventional Bid	Conventional Accept					Applications	Issued
1979										
SEP	1,421	600	527	326	343	437	537	347	4,012	2,640
OCT	2,943	1,130	1,050	431	828	504	552	531	6,509	2,639
NOV	558	265	366	190	0	221	458	186	7,410	3,250
DEC	649	249	413	152	0	199	403	211	3,539	1,894
1980										
JAN	516	232	443	247	26	296	279	180	4,265	2,611
FEB	1,169	564	412	148	225	197	248	207	2,178	1,354
MAR	1,267	426	919	240	242	186	193	106	5,124	1,125
APR	494	199	135	66	85	189	231	200	4,509	1,778
MAY	609	214	280	109	62	491	176	391	5,281	1,127
JUN	603	267	170	76	92	577	225	230	6,627	1,320
JUL	1,255	506	229	141	72	702	440	288	5,322	1,874
AUG	1,347	775	430	219	112	476	495	320	4,936	2,215
SEP	1,268	741	348	210	102	218	521	275	6,850	1,807
OCT	584	344	108	64	100	221	398	193	7,757	2,255
NOV	331	176	82	69	214	180	231	88	2,277	1,613
DEC	309	137	85	54	180	126	285	48	3,575	1,569

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1979									
SEP	285	119	40	127	137	3,764	1,617	860	1,287
OCT	302	118	41	143	41	4,153	1,261	1,559	1,333
NOV	216	84	49	84	36	4,815	1,229	2,015	1,571
DEC	249	92	44	113	35	3,552	1,082	981	1,489
1980									
JAN	231	84	42	105	27	3,554	1,196	1,079	1,279
FEB	207	80	49	78	31	4,512	1,160	1,652	1,700
MAR	259	91	46	121	24	4,272	1,201	1,585	1,486
APR	191	71	40	81	59	3,484	1,104	1,042	1,338
MAY	209	88	47	74	72	4,254	965	1,789	1,500
JUN	243	89	47	107	55	4,209	1,016	1,604	1,589
JUL	376	100	61	215	73	3,954	1,093	1,322	1,539
AUG	310	130	70	110	70	4,390	1,250	1,240	1,830
SEP	310	139	73	98	78	4,537	1,382	1,814	1,341
OCT	281	114	55	112	420	5,140	1,625	1,900	1,615
NOV	286	87	115	84	121	6,202	1,106	2,568	2,528
DEC	327p	109p	84p	134p	491p	6,560p	1,218p	2,666p	2,676p

n.a.-Not available; p-Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields.

[4] Benchmark rates, Citicorp Real Estate, Inc.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

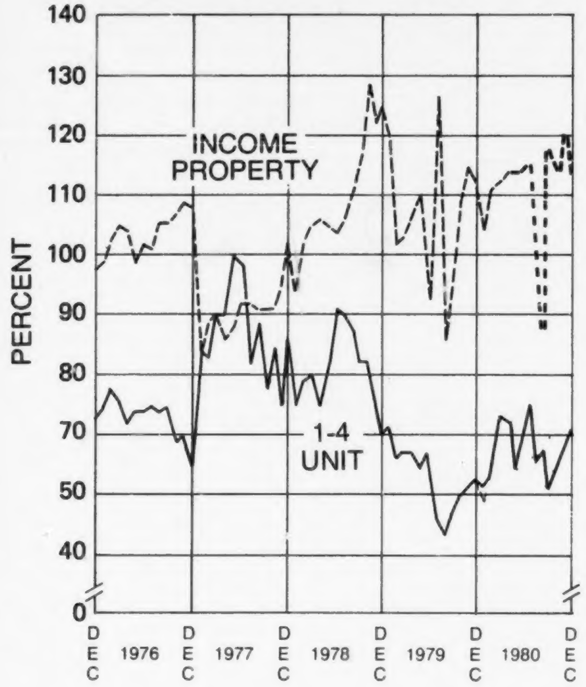
[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

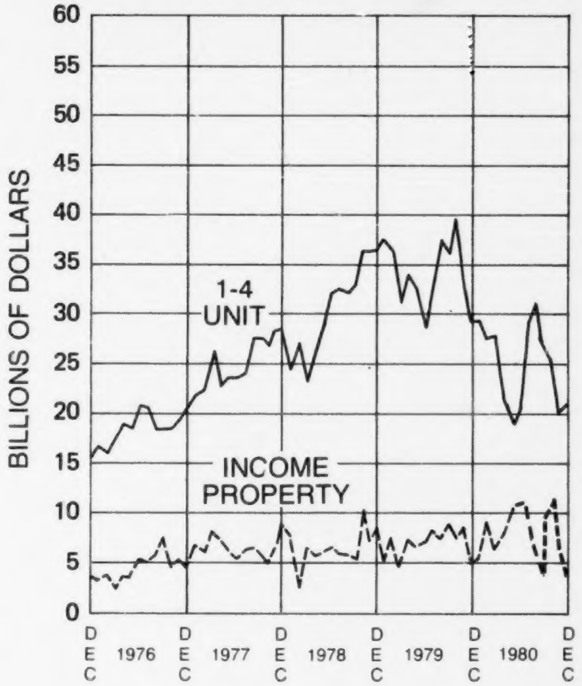
[8] Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate, Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE[1]



MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED[4]



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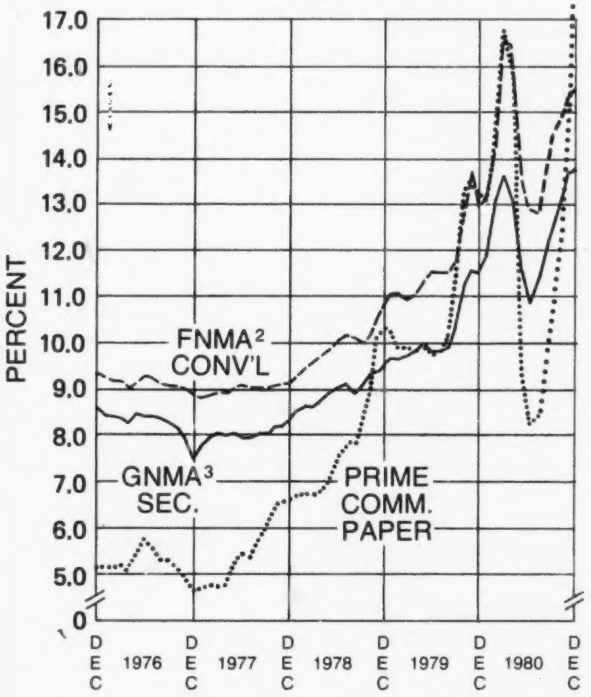
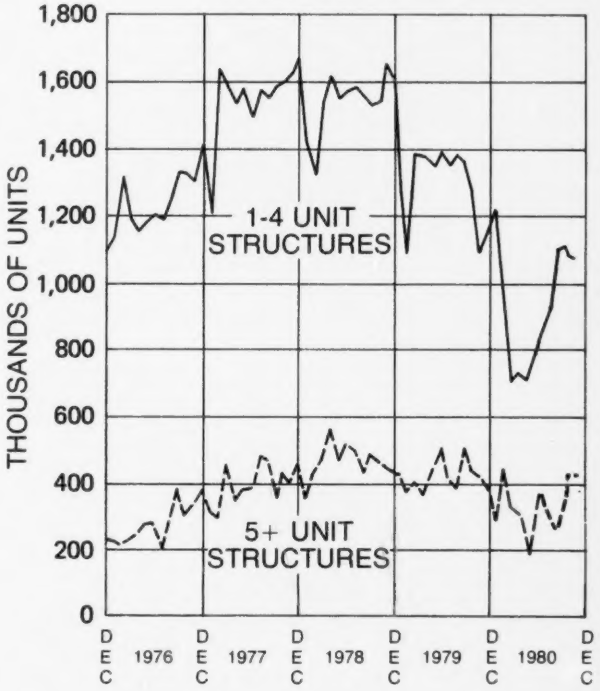


HOUSING STARTS[4]



FOOTNOTES

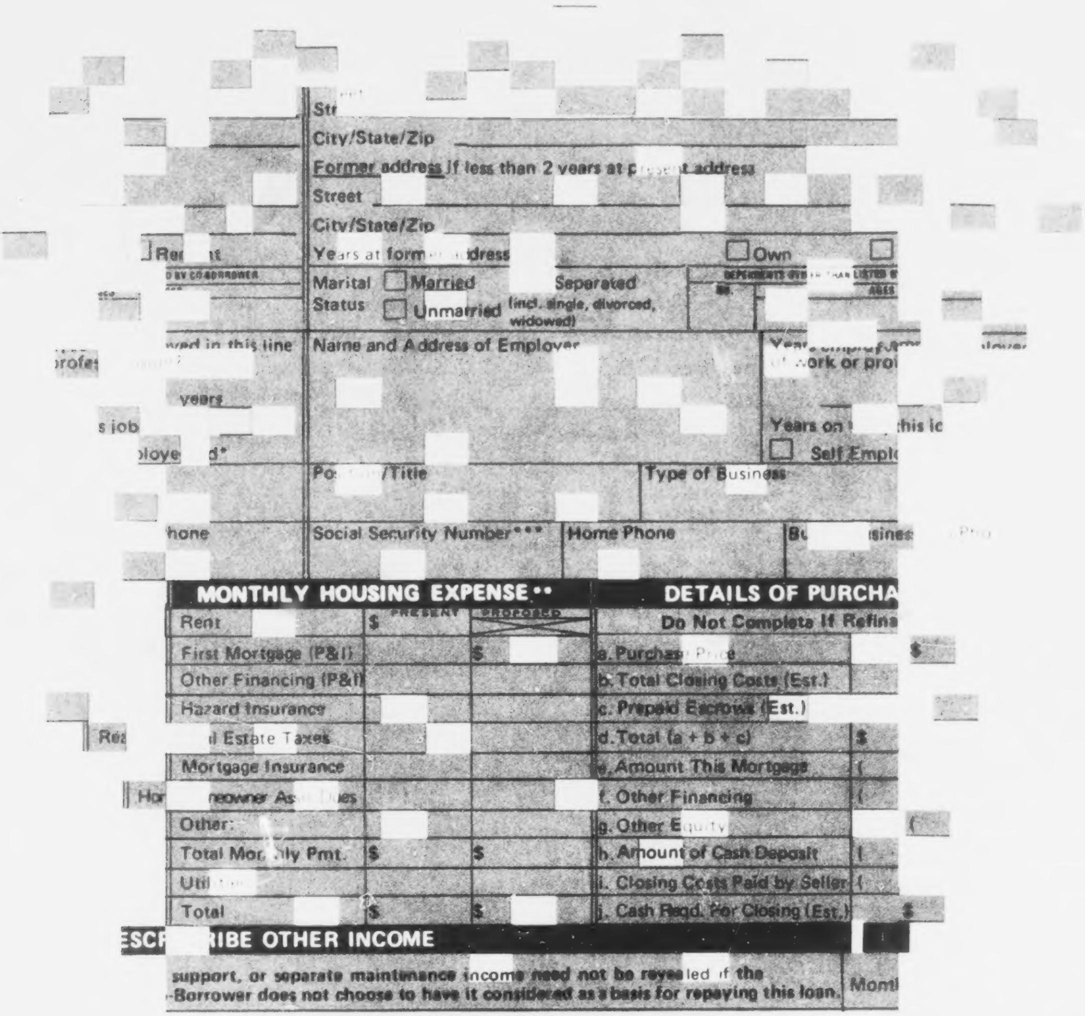
1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.
2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.
3. SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY.
4. SEASONALLY ADJUSTED ANNUAL RATES.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION.

MBA—ECONOMICS DEPARTMENT

Mortgage Banker

APRIL 1981



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City/State/Zip

Former address if less than 2 years at present address

Street

City/State/Zip

Years at former address ☐ Own ☐

Marital Status ☐ Married Seperated ☐ Unmarried (incl. single, divorced, widowed)

Name and Address of Employer

Years on this job

☐ Self Employed*

Position/Title

Type of Business

Social Security Number***

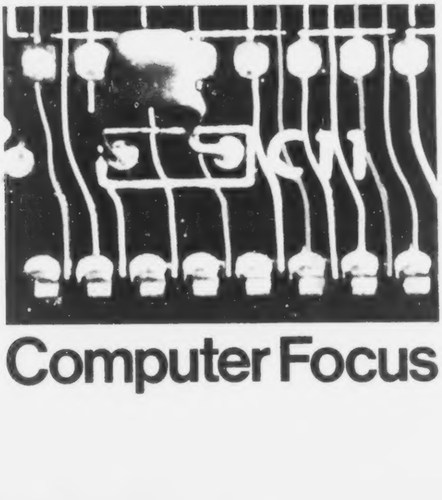
Home Phone

Business Phone

MONTHLY HOUSING EXPENSE**	PRESENT	PROPOSED	DETAILS OF PURCHASE Do Not Complete If Refinance	
Rent	$		a. Purchase Price	$
First Mortgage (P&I)		$	b. Total Closing Costs (Est.)	
Other Financing (P&I)			c. Prepaid Escrows (Est.)	
Hazard Insurance			d. Total (a + b + c)	$
Real Estate Taxes			e. Amount This Mortgage	(
Mortgage Insurance			f. Other Financing	(
Homeowner Assn. Dues			g. Other Equity	(
Other:			h. Amount of Cash Deposit	(
Total Monthly Pmt.	$	$	i. Closing Costs Paid by Seller	(
Utilities			j. Cash Reqd. For Closing (Est.)	$
Total	$	$		

DESCRIBE OTHER INCOME

support, or separate maintenance income need not be revealed if the Co-Borrower does not choose to have it considered as a basis for repaying this loan.



Computer Focus

Mortgage Banker

Volume 41 No. 7
April 1981

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Front-End
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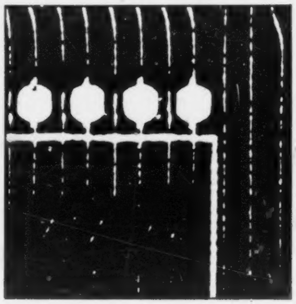
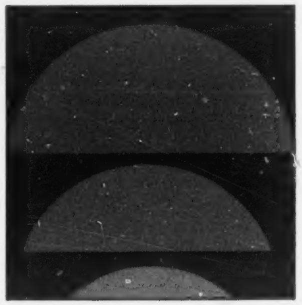
Page 14



Automation
Options
Page 18



Solar
Future
Page 40

Computer Focus

What Can Front-End EDP Do For Mortgage Bankers? 14
Donald R. Hague

Consider All Automation Options 18
Albert C. Kocourek

Small Business Computers Assist Suburban Coastal Corp. 23
Judy Kimsey

Mortgage Loan Servicing: A Listing of Computer Software Packages and Service Bureaus 29

Evaluating the Shared Appreciation Mortgage 31
Robert J. Angell and Bruce N. Wardrep

Lenders Talk Informally About SAMs 38

Solar Future: Burning Bright? 40
Nick Harrison

Departments

Starts 5
Association 5
Industry 7
People 49
Mortgage Market Trends 53
Books 65
Classified Advertisements 67
Advertisers Index 68

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Mortgage Market Trends

Prepared by MBA's Economics Department

March 18, 1981

The economic outlook for 1981, though not very encouraging, should at least be familiar. While the events of last year will not be replicated exactly, many of the same underlying forces that were present in 1980 are still with us. The dilemma of dealing with an economic climate of both erratic growth and persistent inflation has not yet been solved, and the success or failure of the new administration in addressing this problem will markedly affect any forecast. However, the lessons learned from last year's painfully volatile economy will be extremely useful in assessing the upcoming months.

The poor performance of the economy in 1980 was concentrated in the second quarter of the year, when inflation-adjusted GNP declined a record 9.9 percent. While the reasons behind this abrupt collapse were myriad, the program of selective credit controls was primarily responsible for the severe turnabout in consumer purchasing patterns. Consumer spending accounts for about two-thirds of total GNP, and is the dominant factor in any economic forecast. The insidious effect of inflation on personal income limits the consumer's ability to fuel economic growth; still, the average American has shown a surprising ability to remain in the marketplace. This ability to adapt to an inflationary environment, however, depends upon ready access to consumer and mortgage credit. Without this reliance on credit, consumer purchasing power is so severely restricted that negative economic growth occurs.

A closer look at the factors affecting the consumer yields a divided picture. Real disposable income has fallen steadily in recent years, but the problems of deflating income by using the Consumer Price Index make this indicator somewhat misleading. Because consumers who have already purchased a home are not affected by rising housing costs, the measures of real income seriously understate the position of many wage-earners.

In another area, the supposedly low savings rate is receiving much attention. Depository flows have been poor in recent years but it is also true that many people have shifted their savings into such areas as real estate, precious metals, and other real assets. Though these nontraditional investments are not reflected as savings, most consumers look upon them as savings, and the purchase of many of these assets could explain the puzzling strength in the consumer sector.

The logical outcome of this proposition is clear. The average consumer will continue to provide the basis for economic strength even in slack periods, as long as credit is available at a reasonable cost. In other words, mortgage money availability is crucial to the housing sector along with the price (interest rate) of that credit. Therefore, when depository activity is weak, the ability of mortgage lenders to tap capital markets is of paramount importance. Because there is not, at this time, a vehicle similar to the Government National Mortgage Association pass-through security in the secondary market for conventional loans, the ability of the FHA and VA home loan programs to facilitate the flow of mortgage money will be extremely important to the 1981 housing market. Restrictions imposed on FHA and VA activity could result in a continued depression in the home sales and construction sectors.

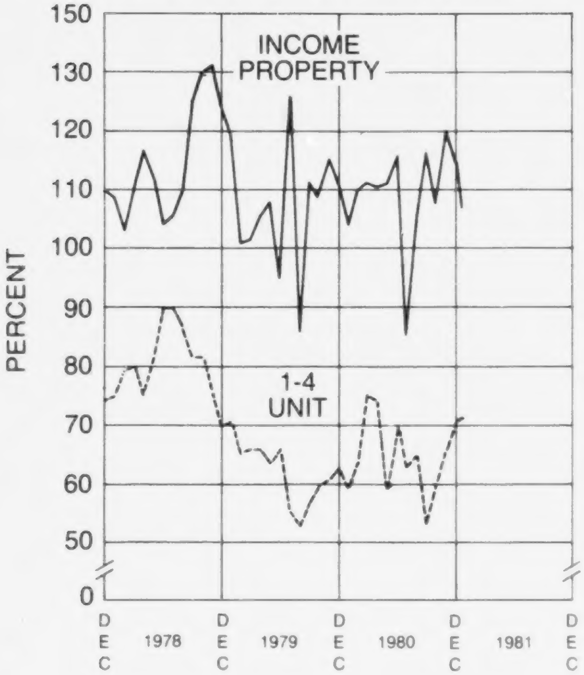
Leading economic indicators are giving off equally perplexing signals. Producer prices, an indication of inflation on the wholesale level, dropped slightly in February but remain in the area of double digit increases. Unemployment also improved slightly in February, but the measure of total hours worked indicates a possible trend toward increasing joblessness. Retail sales rose again in February, but the 10 percent increase over year-earlier figures does not take price level changes into account. A measurement of real retail sales would no doubt show that total sales have declined from the previous year. Commercial and industrial loan demand has weakened considerably in the last few weeks, but the commercial paper market has been very active.

The declining levels of commitments by mortgage investors in the previous four months have finally had their predicted effect on housing construction. February statistics on housing starts and permits show that the underlying strength of the construction sector has finally been eroded. Preliminary figures show 1.21 million units started in February on a seasonally adjusted annual basis. This represents a 25 percent decline over the revised 1.61 million starts of January, but is about equivalent to the February 1980 levels. Permit activity declined in February to 1.14 million units, indicating that the short-term trend in starts is definitely downward. Fortunately, both starts and sales should rebound in time for the summer and fall, largely on the strength produced by falling interest rates.

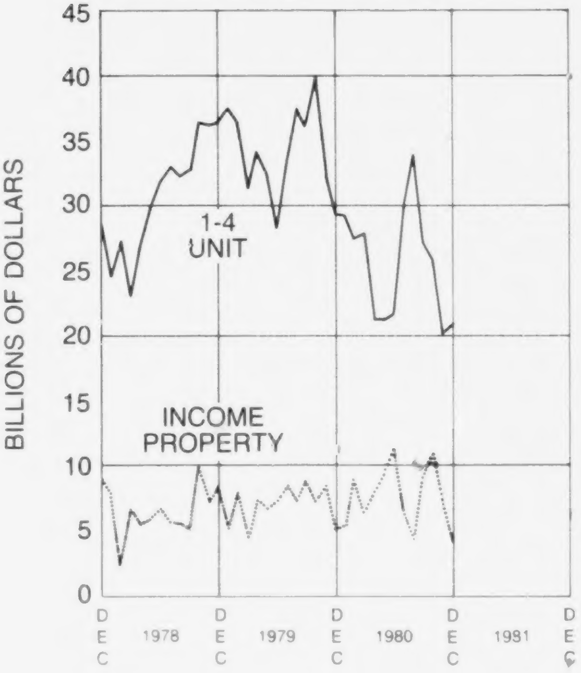
MBA's Survey of Mortgage Lending Activity shows the same pattern of conflicting indicators. Long-term mortgage loans closed increased 18 percent in January to a seasonally adjusted $3.09 billion. This increase is attributed to income property activity, as originations of multifamily and nonresidential loans jumped an adjusted 280 percent while 1- to 4- unit loan activity dropped 20 percent on a seasonally adjusted basis. On the other hand, commitments issued to mortgage bankers from investors exhibit a pattern opposite to originations. Total commitments from investors fell to $2.8 billion in January from $4.8 billion the previous month. This decline represents the seasonal nature of the income property sector, as 1- to 4-unit commitments actually increased by 17 percent.

The combination of high interest rates and low commitment levels will combine to produce a downturn in the upcoming quarter. Activity in 1- to 4-unit originations will be depressed, though not to the extent of the 1980 drop-off. As economic activity slows and mortgage rates decline, the market will begin to revive. Our present forecast calls for a third quarter turnaround, with the promised tax cuts and less expensive mortgage credit supplying the impetus for a recovery.

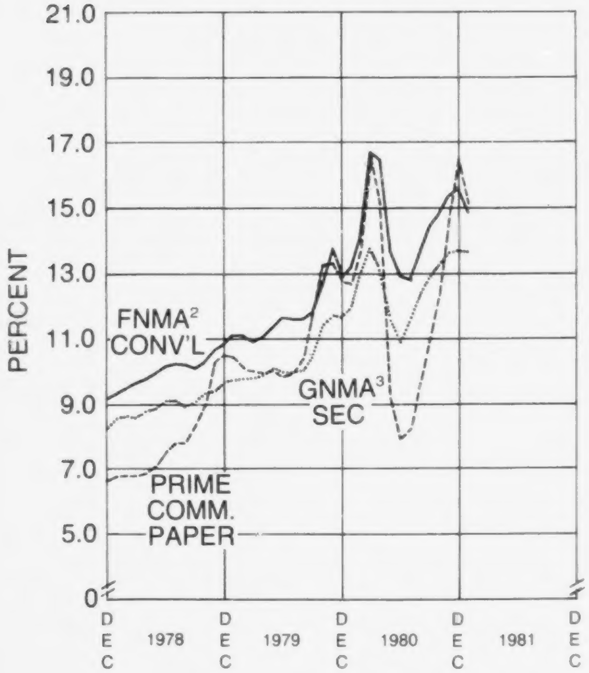
Joseph J. Donohue, Assistant Economist



MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE[1]



MORTGAGE BANKERS LONG-TERM MORTGAGE LOANS CLOSED[4]



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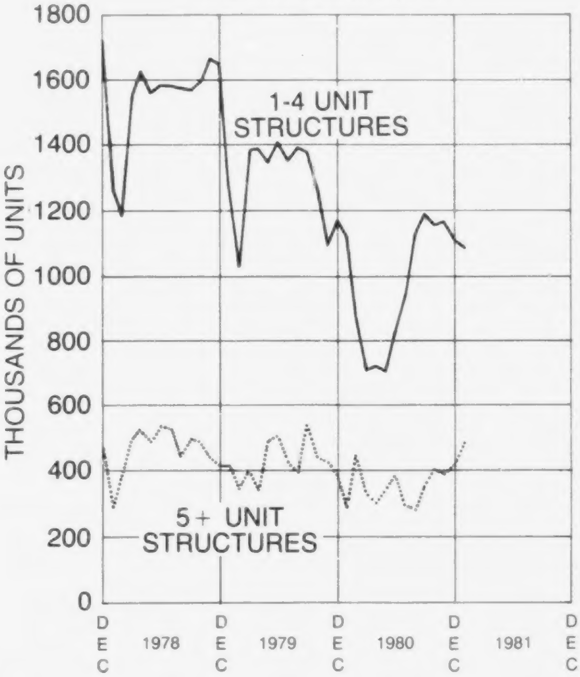

HOUSING STARTS[4]

FOOTNOTES

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MBA—ECONOMICS DEPARTMENT

MORTGAGE MARKET TRENDS—APRIL 1981

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1979												
NOV	98	64	34	1,263	850	413	119	82	37	1,522	1,094	428
DEC	81	52	29	1,244	899	345	92	65	27	1,548	1,165	383
1980												
JAN	75	52	23	1,264	882	382	73	56	17	1,419	1,219	290
FEB	76	54	22	1,142	801	341	80	55	25	1,330	887	443
MAR	82	56	26	932	627	305	85	59	26	1,041	705	336
APR	77	54	23	789	536	253	96	71	25	1,030	728	302
MAY	77	56	21	825	576	249	92	73	19	913	714	199
JUN	101	69	32	1,078	721	357	116	84	32	1,223	832	391
JUL	113	84	29	1,236	900	336	119	94	25	1,249	951	298
AUG	116	86	30	1,361	988	373	129	104	25	1,416	1,139	277
SEP	143	94	49	1,564	1,060	504	138	107	31	1,545	1,189	356
OCT	127	89	38	1,333	953	380	154	112	42	1,561	1,157	404
NOV	95	65	30	1,355	953	402	112	82	30	1,563	1,167	396
DEC	88	56	33	1,235	869	366	96	65	31	1,535	1,105	430
1981												
JAN	70p	47p	23p	1,228p	857p	371p	82p	57p	25p	1,615p	1,135p	477p
12 months												
1980	1,170	815	356				1,292	963	330			
1979	1,552	1,107	445				1,745	1,316	429			
1978	1,800	1,313	487				2,020	1,558	462			
1977	1,690	1,247	443				1,987	1,573	414			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res
1979				
NOV	130,358	59,218	19,749	51,391
DEC	132,078	57,753	20,751	53,574
1980				
JAN	137,295	58,439	22,224	56,632
FEB	130,053	54,463	20,664	54,926
MAR	120,768	48,797	19,628	52,343
APR	113,411	42,980	17,723	52,708
MAY	108,104	38,057	17,131	52,916
JUN	104,786	35,750	16,150	52,886
JUL	101,629	37,263	14,922	49,444
AUG	105,162	40,380	15,647	49,135
SEP	109,738	44,448	16,286	48,974
OCT	113,773	48,661	14,938	50,174
NOV	120,271	50,994	18,198	51,079
DEC	125,692	52,954	18,181	54,557
1981				
JAN	133,559p	55,836p	19,891p	57,832p

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1979				
NOV	255	41	409	10.0
DEC	197	34	403	11.8
1980				
JAN	209	43	393	9.2
FEB	220	44	381	8.7
MAR	243	43	370	8.6
APR	224	36	361	10.2
MAY	219	43	349	8.1
JUN	233	48	342	7.2
JUL	275	55	339	6.2
AUG	286	60	332	5.6
SEP	293	48	339	7.1
OCT	282	44	343	7.8
NOV	210	37	344	9.2
DEC	187	34	337	10.2
1981				
JAN	166p	34p	336p	9.8p
12 months				
1980	2,881	535		
1979	3,701	709		
1978	3,863	817		
1977	3,547	819		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1979																
NOV	13	16	42	27	152	191	557	363	19	20	53	27	170	249	716	387
DEC	10	12	34	25	144	224	517	359	10	15	40	27	156	326	667	399
1980																
JAN	5	8	39	23	116	221	577	350	6	6	40	22	194	213	673	339
FEB	5	8	39	24	125	178	524	315	3	8	47	23	73	223	701	333
MAR	10	10	40	22	122	120	442	248	7	12	45	21	105	178	511	247
APR	8	12	37	20	86	116	385	202	10	15	48	23	130	156	487	257
MAY	9	13	36	19	98	122	399	206	12	15	45	21	129	122	459	203
JUN	11	15	48	27	114	142	534	288	13	21	58	24	120	179	679	245
JUL	12	20	50	32	119	208	566	343	12	20	60	27	194	193	664	278
AUG	11	19	53	33	117	213	650	381	13	21	63	32	128	224	694	370
SEP	13	26	69	35	143	242	770	409	17	30	61	30	216	288	679	362
OCT	14	26	56	31	139	247	597	350	12	34	75	32	107	310	782	362
NOV	10	17	44	25	124	225	639	367	10	23	55	24	111	305	783	364
DEC	9	13	52	22	111	209	623	292	9	13	52	22	131	259	793	352
1981																
JAN	5p	8p	30p	18p	98p	182p	645p	288p	5p	8p	30p	18p	152p	328p	855p	280p
12 months																
1980	118	187	563	313					124	218	649	301				
1979	167	289	628	468					178	349	748	471				
1978	194	388	668	551					200	451	824	545				
1977	182	402	561	545					202	465	783	538				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1979						
NOV	1,226	794	432	165	121	44
DEC	1,140	717	423	174	139	35
1980						
JAN	1,088	678	410	125	94	31
FEB	1,041	644	397	126	89	37
MAR	991	609	382	130	90	40
APR	953	588	365	135	93	42
MAY	918	570	348	120	87	33
JUN	900	566	334	131	89	42
JUL	890	572	318	125	82	43
AUG	887	576	311	128	96	32
SEP	905	601	304	116	81	35
OCT	935	620	315	120	89	31
NOV	932	632	312	114	81	33
DEC	918	657	311	129	99	30
1981						
JAN	945p	622p	323p	85p	67p	18p
12 months						
1980				1,496	1,067	429
1979				1,871	1,426	445
1978				1,868	1,486	382
1977				1,657	1,353	304

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				FMS Auction Yields on 4 mo Commitments[6]			Aaa Utility New Issue	U.S. Gov't		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
	FHA New[3]	Conventional		Conventional												
		New	Existing	New	Existing			FHA/VA	Conv.			10-yr	26-wk			
1979																
NOV	12.41	12.50	12.50	11.37	11.52	11.500-12.000	15.56	12.797	13.794	11.58	11.42	10.65	11.856	13.57	99	93
DEC	12.24	12.50	12.50	11.64	11.89	11.875-12.000		12.485	12.981	11.56	11.25	10.39	11.847	13.24	99	117
1980																
JAN	12.60	12.80	12.80	11.87	12.10	11.875-12.250		12.930	13.188	11.96	11.73	10.80	11.851	13.04	87	116
FEB	n.a.	14.10	14.10	11.93	12.62	13.000-14.000	15.77	14.589	14.124	13.02	13.57	12.41	12.721	13.78	n.a.	61
MAR	14.63	16.05	16.05	12.62	12.87	n.a.		15.581	16.665	13.69	14.00	12.75	15.100	16.81	63	94
APR	13.45	15.55	15.55	13.03	13.57	n.a.		14.670	16.451	13.17	12.90	11.47	13.618	15.78	55	170
MAY	11.99	13.20	13.20	13.67	14.12	13.000-15.000	18.32	12.855	13.535	11.54	11.53	10.18	9.149	9.49	46	136
JUN	11.85	12.45	12.45	12.69	13.31	12.250-12.750		12.360	12.946	10.89	10.96	9.78	7.218	8.27	89	111
JUL	12.39	12.45	12.45	12.48	12.61	12.500-13.500		12.630	12.807	11.53	11.60	10.25	8.101	8.41	79	128
AUG	13.54	13.25	13.25	12.25	12.26	13.000-14.500	13.16	13.873	13.663	12.33	12.32	11.10	9.443	9.57	122	123
SEP	14.26	13.65	13.70	12.36	12.38	13.000-14.000		14.819	14.450	12.86	12.74	11.51	10.546	10.97	152	135
OCT	14.38	14.10	14.10	12.60	12.64	13.500-14.500		14.965	14.791	13.24	13.18	11.75	11.566	12.52	120	149
NOV	14.47	14.70	14.70	13.08	13.29	n.a.	15.31	15.530	15.280	13.69	13.85	12.68	13.612	15.18	62	101
DEC	14.08	15.05	15.05	13.28	13.58	n.a.		15.192	15.568	13.71	14.51	12.84	14.770	18.07	43	87
1981																
JAN	14.23	14.95	14.95	13.28	13.91	n.a.		14.870	14.923	13.65	14.12	12.57	13.883	16.58	11	108

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5 + Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos
1979																				
AUG	21,287	4,232	9,018	6,800	1,237	17,298	3,602	8,289	5,193	214	1,083	217	375	342	149	2,906	413	354	1,265	874
SEP	18,956	3,955	7,738	5,820	1,443	14,395	3,032	7,012	4,113	238	1,254	469	351	263	171	3,306	453	375	1,444	1,034
OCT	21,394	4,141	8,879	6,869	1,505	16,913	3,690	7,994	5,009	220	921	91	488	191	151	3,560	360	397	1,669	1,134
NOV	18,362	3,526	7,230	6,175	1,431	13,823	2,833	6,480	4,260	250	831	148	338	223	122	3,708	545	412	1,692	1,059
DEC	15,040	3,338	5,223	5,018	1,461	11,801	2,552	4,584	3,338	427	792	130	270	251	141	3,346	655	369	1,429	893
1980																				
JAN	12,134	2,588	4,070	4,073	1,403	8,731	2,271	3,589	2,703	168	588	82	208	204	94	2,816	236	273	1,166	1,141
FEB	11,975	2,733	4,281	3,802	1,159	8,469	2,055	3,805	2,361	248	919	454	204	148	113	2,587	224	272	1,293	798
MAR	14,187	2,632	5,487	4,509	1,559	10,372	2,085	4,955	2,899	433	517	72	224	135	86	3,298	475	308	1,475	1,040
APR	12,363	2,297	4,707	4,111	1,248	8,868	1,662	4,216	2,749	241	614	94	218	137	165	2,881	541	273	1,225	842
MAY	9,852	2,080	3,536	3,301	935	6,860	1,606	2,996	2,051	207	429	41	220	102	66	2,563	433	320	1,148	662
JUN	10,873	2,830	4,076	2,872	1,095	7,351	1,910	3,533	1,794	114	1,099	596	248	167	88	2,423	324	295	911	893
JUL	12,555	3,020	5,468	2,947	1,120	9,560	2,530	4,885	2,041	104	615	100	313	94	108	2,380	390	270	812	908
AUG	15,579	3,160	7,722	3,710	1,167	12,675	2,780	7,089	2,732	74	626	60	276	162	128	2,458	320	357	816	965
SEP	17,767	3,360	8,597	4,942	868	14,026	2,490	7,818	3,635	83	1,007	440	364	116	87	2,734	430	415	1,191	698
OCT	17,746	3,030	8,423	5,151	1,142	13,806	2,350	7,616	3,786	72	926	240	327	183	176	2,996	440	480	1,182	894
NOV	13,249	2,280	5,913	3,923	1,133	9,903	1,690	5,316	2,847	50	670	190	226	142	112	2,676	400	371	934	971

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos
1979										
JUL	86,870	16,501	28,818	12,817	28,734	20,028	3,547	8,167	3,266	5,048
AUG	85,014	14,153	28,379	13,195	29,287	19,816	5,466	8,852	3,335	2,163
SEP	85,090	14,619	28,373	11,974	30,124	16,809	4,073	7,730	2,530	2,476
OCT	83,042	14,258	27,084	11,493	30,207	16,943	4,014	7,992	2,916	2,021
NOV	79,324	14,824	23,714	11,315	29,471	12,023	3,415	4,741	2,407	1,460
DEC	73,350	13,473	21,467	10,504	27,906	8,533	2,608	3,248	1,892	785
1980										
JAN	67,753	11,983	20,502	8,929	26,339	8,579	2,984	3,510	1,545	540
FEB	68,818	12,333	21,351	9,717	25,417	9,400	2,046	5,017	1,637	700
MAR	66,122	11,974	20,424	9,215	24,509	9,924	2,372	4,782	1,850	920
APR	60,999	10,500	18,597	8,286	23,616	7,126	1,964	3,147	1,276	739
MAY	58,833	10,336	17,762	8,011	22,724	7,051	2,958	2,802	901	390
JUN	58,058	9,960	18,848	7,651	21,599	9,046	2,850	4,580	1,250	366
JUL	63,525	13,750	21,310	7,769	20,696	12,568	3,050	7,128	1,626	764
AUG	65,653	12,640	23,876	9,032	20,105	14,951	2,680	9,510	2,076	685
SEP	66,681	12,800	24,476	9,230	20,175	15,381	2,500	8,858	2,676	1,347
OCT	66,925	14,670	23,641	8,899	19,715	13,557	3,230	7,305	2,142	880
NOV	65,262	14,770	22,790	8,629	19,063	10,048	2,540	5,146	1,608	754

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA VA	Private	Units	Amt	Units	Amt	Units	Amt	Units	Amt
1979											
JUL	170	112	58	117	4,996	29	1,058	31	1,423	57	2,515
AUG	177	118	59	116	5,042	25	912	35	1,695	56	2,435
SEP	150	100	50	104	4,646	20	744	39	1,910	45	1,992
OCT	155	98	57	104	4,580	29	1,092	22	1,100	53	2,388
NOV	116	76	40	102	4,493	27	1,004	29	1,391	46	2,098
DEC	79	50	29	91	4,117	20	769	31	1,531	40	1,817
1980											
JAN	90	66	24	100	4,534	31	1,142	39	1,956	30	1,436
FEB	91	63	28	71	3,153	21	753	26	1,301	24	1,099
MAR	101	61	40	74	3,371	18	696	27	1,329	29	1,346
APR	90	58	32	76	3,473	20	746	23	1,149	33	1,578
MAY	101	76	25	56	2,608	13	483	17	848	26	1,277
JUN	105	78	27	50	2,273	13	502	15	741	22	1,030
JUL	138	99	39	63	2,904	20	823	16	817	27	1,264
AUG	139	89	50	70	3,389	23	958	17	944	30	1,487
SEP	136	76	60	94	4,592	23	945	30	1,624	41	2,023
OCT	115	59	56	95	4,580	24	990	21	1,133	50	2,457
NOV	90	48	42	79	3,824	18	725	21	1,135	40	1,964

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA					FHLMC			GNMA	
	4-Month Commitments				12 Month Convert Standby	Comm.	Purc	Sold	Pass-Through Securities	
	FHA/VA Bid	FHA/VA Accept	Conventional Bid	Conventional Accept					Applications	Issued
1979										
NOV	558	265	366	190	0	221	458	186	7,410	3,250
DEC	649	249	413	152	0	199	403	211	3,539	1,894
1980										
JAN	516	232	443	247	26	296	279	180	4,265	2,611
FEB	1,169	564	412	148	225	197	248	207	2,178	1,354
MAR	1,267	426	919	240	242	186	193	106	5,124	1,125
APR	494	199	135	66	85	189	231	200	4,509	1,778
MAY	609	214	280	109	62	491	176	391	5,281	1,127
JUN	603	267	170	76	92	577	225	230	6,627	1,320
JUL	1,255	506	229	141	72	702	440	288	5,322	1,874
AUG	1,347	775	430	219	112	476	495	320	4,936	2,215
SEP	1,268	741	348	210	102	218	521	275	6,850	1,807
OCT	584	344	108	64	100	221	398	193	7,757	2,255
NOV	331	176	82	69	214	180	231	88	2,277	1,613
DEC	309	137	85	54	180	126	285	48	3,575	1,569
1981										
JAN	275	122	32	30	78	203	152	168	3,656	1,300

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5 + Units	Non-res		Total	1-4 Units	5 + Units	Non-res
1979									
NOV	216	84	49	84	36	4,815	1,229	2,015	1,571
DEC	249	92	44	113	35	3,552	1,082	981	1,489
1980									
JAN	231	84	42	105	27	3,554	1,196	1,079	1,279
FEB	207	80	49	78	31	4,512	1,160	1,652	1,700
MAR	259	91	46	121	24	4,272	1,201	1,585	1,486
APR	191	71	40	81	59	3,484	1,104	1,042	1,338
MAY	209	88	47	74	72	4,254	965	1,789	1,500
JUN	243	89	47	107	55	4,209	1,016	1,604	1,589
JUL	376	100	61	215	73	3,954	1,093	1,322	1,539
AUG	310	130	70	110	70	4,390	1,250	1,240	1,830
SEP	310	139	73	98	78	4,537	1,382	1,814	1,341
OCT	281	114	55	112	420	5,140	1,625	1,900	1,615
NOV	286	87	115	84	121	6,202	1,106	2,568	2,528
DEC	411	220	71	120	94	6,148	1,102	2,502	2,544
1981									
JAN	352p	182p	56p	114p	217p	7,350p	1,241p	2,601p	3,508p

n.a.-Not available; p-Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series

[2] Reflects cumulative total through the latest month for each column

[3] Secondary market gross yields

[4] Benchmark rates, Citicorp Real Estate, Inc.

[5] Federal Reserve's weighted average interest rate for Commercial Banks

[6] Weighted average gross yields for accepted bids

[7] Survey of three New York security dealers. Securities for immediate delivery

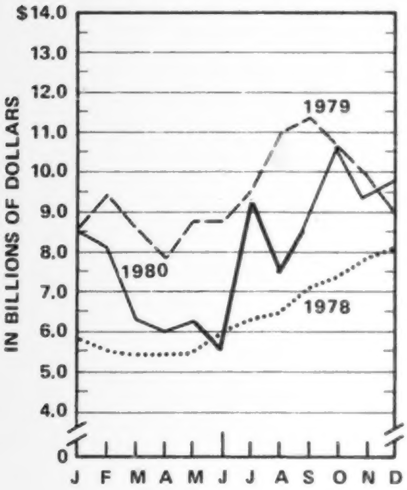
[8] Mutual Savings Banks and Commercial Banks

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate, Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

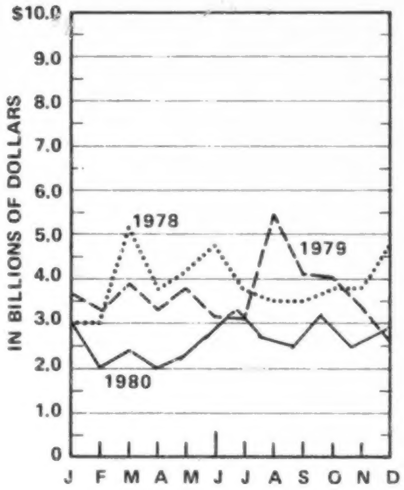
MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGES

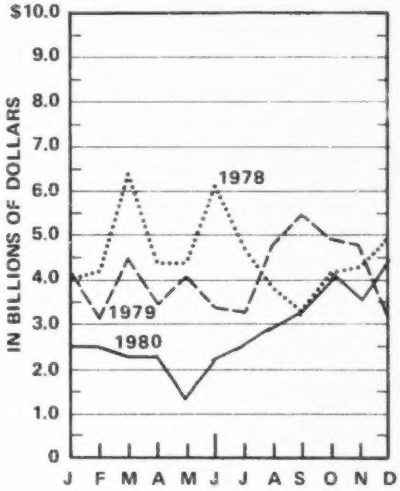
Inventory: Own Account



Commitments Issued

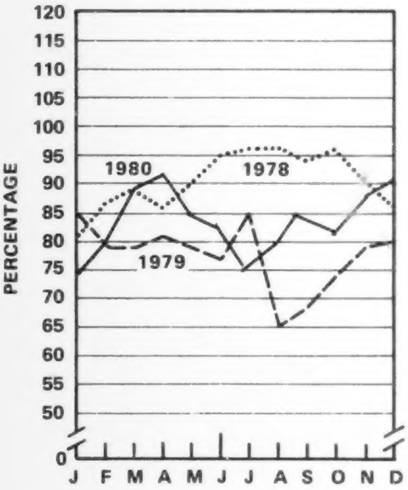


Commitments Received

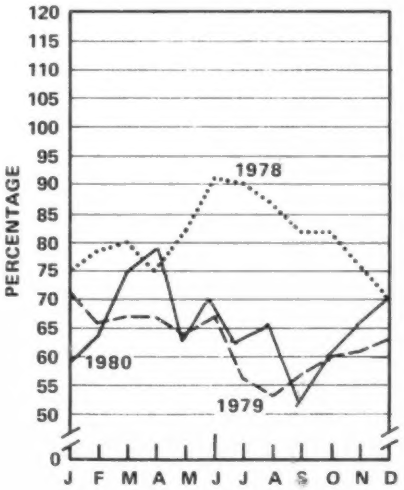


COVERAGE[1]

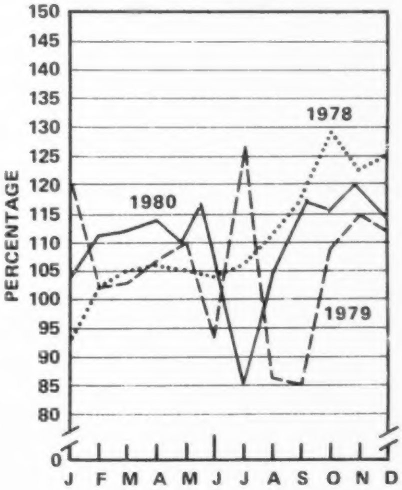
All Loans



1-To 4-Unit Loans



Income Property Loans



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[1] Percent coverage is outstanding long-term commitments received from investors, divided by the sum of outstanding end of month inventory and outstanding long-term commitments issued to borrowers, multiplied by 100.

Note: Data are estimates for all mortgage banking members of MBA. Estimates for the 699 mortgage banking members are based on a sample of firms representing 25 percent of the total long-term originations in the industry. The current month's data are preliminary and will be revised the following month. Once each year when new annual benchmark data for the industry becomes available, the monthly data are again revised to match the annual industry totals published in *Mortgage Banking: Loans Closed and Servicing Volume*. The latest benchmark revisions were made effective with the December 1978 benchmarks.

Source: MBA Economics Department.

ORTGAGE BANKING ACTIVITY
ll dollar amounts are in millions)

LOANS CLOSED

	LONG-TERM MORTGAGE LOANS													CONSTRUCTION LOANS
	Seasonally Adjusted				Not Seasonally Adjusted									
						1-4 Units				5 Units or More				
ear d onth	Total[1]	1-4 Units	5 Units or More	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total
980														
AN	$ 2,830	$ 2,440	$ 140	$ 320	$ 2,590	$ 2,270	$ 710	$ 710	$ 850	$ 80	$ 0	$ 80	$ 240	$ 560
EB	2,900	2,300	580	170	2,740	2,060	740	720	600	460	350	110	220	490
AR	3,060	2,320	60	470	2,630	2,090	750	710	630	70	40	30	470	460
PR	2,340	1,770	60	610	2,300	1,660	530	470	660	100	20	80	540	510
AY	2,450	1,740	70	680	2,080	1,610	580	470	560	40	0	40	430	690
IN	2,620	1,820	400	520	2,760	1,970	950	660	360	420	110	310	370	540
/L	2,950	2,470	80	480	3,020	2,530	1,170	910	450	100	90	10	390	1,960
UG	3,030	2,830	60	310	3,160	2,780	1,180	1,060	540	60	60	0	320	1,150
EP	2,950	2,270	370	390	3,280	2,460	1,000	880	580	440	440	0	380	380
CT	2,760	2,160	470	460	3,030	2,350	880	780	690	240	170	70	440	500
OV	2,300	1,680	190	440	2,280	1,690	580	550	560	190	160	30	400	300
EC	2,620	1,900	380	250	3,040	2,050	750	660	640	480	410	70	510	780
981														
AN p	3,090	1,510	1,990	410	2,830	1,400	530	430	440	1,130	750	380	300	340
ar-to-date														
30	$32,800	$25,700	$2,870	$5,110	$32,910	$25,520	$9,820	$8,580	$7,120	$2,680	$1,850	$ 830	$4,710	$8,320
79	41,590	34,190	2,520	4,600	41,410	34,160	12,090	11,910	10,160	2,760	1,350	1,410	4,490	11,210
78	37,300	30,920	2,560	3,980	37,770	31,150	10,040	11,000	10,110	2,450	920	1,530	4,170	7,520

OUTSTANDING END OF MONTH INVENTORY

COVERAGE[2]

	LONG TERM MORTGAGE LOANS									CONSTRUCTION LOANS				COVERAGE[2]		
		1-4 Units				5 Units or More										
r nth	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	1-4 Units	5 Units or More	Non-Res.
0																
	$ 8,500	$6,760	$2,110	$1,690	$2,960	$ 750	$ 50	$700	$ 990	$2,410	$ 870	$590	$950	59%	112%	102%
3	8,080	6,440	1,950	1,570	2,920	550	30	520	1,090	2,360	860	560	940	64	136	103
R	6,310	4,720	1,220	1,100	2,400	590	40	550	1,000	2,430	930	580	920	75	137	104
R	5,800	4,120	1,020	870	2,230	680	10	670	1,000	2,310	800	570	940	74	137	103
Y	5,760	4,050	1,010	830	2,210	780	10	770	930	2,190	780	580	830	59	134	105
	5,690	3,840	1,240	870	1,730	960	20	940	890	2,460	810	590	1,060	70	141	103
	9,260	4,900	1,550	1,170	2,180	2,430	1,500	930	1,930	2,480	760	660	1,060	63	121	85
G	7,560	5,070	1,710	1,370	1,990	940	30	910	1,550	2,490	900	610	980	65	123	96
	9,230	6,910	2,200	2,040	2,670	940	30	910	1,380	2,580	880	650	1,050	51	113	120
T	10,530	6,710	2,030	1,730	2,950	2,390	1,510	880	1,430	2,520	810	680	1,030	60	116	116
V	9,480	5,810	1,620	1,350	2,840	2,340	1,550	790	1,330	2,960	820	880	1,260	62	113	129
C	11,200	7,060	1,920	1,560	3,580	2,640	1,540	1,100	1,500	3,190	840	[illegible]	[illegible]	[illegible]	109	118
/																
p	9,790	5,680	1,540	1,130	3,010	2,580	1,480	1,100	1,530	2,920	870	790	[illegible]	[illegible]	106	110

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH							
	To Borrowers				From Investors				To Borrowers				From Investors			
ear d onth	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.
80																
N	$ 2,990	$ 2,690	$ 100	$ 200	$ 2,500	$ 1,950	$ 330	$ 220	$ 7,760	$4,270	$ 540	$2,950	$11,980	$6,540	$1,440	$4,000
B	2,050	1,820	60	170	2,490	2,210	80	200	7,380	3,780	740	2,860	12,340	6,530	1,750	4,060
AR	2,380	2,040	90	250	2,260	1,830	170	260	7,120	3,680	710	2,730	11,980	6,330	1,780	3,870
PR	1,970	1,680	40	250	2,180	1,500	170	510	6,080	3,170	520	2,390	10,510	5,370	1,650	3,490
AY	2,960	2,730	90	140	1,550	1,290	100	160	7,120	3,820	570	2,730	10,340	4,680	1,810	3,850
N	2,840	2,480	160	200	2,280	1,430	540	310	7,670	4,320	830	2,520	12,850	6,810	2,530	3,510
L	3,050	2,850	70	130	2,540	2,190	150	200	9,190	5,000	1,440	2,750	13,750	6,520	3,250	3,980
JG	2,680	2,090	190	400	2,990	2,240	110	640	8,200	4,830	950	2,420	12,640	6,480	2,330	3,830
P	2,700	1,970	200	530	3,180	2,230	220	730	7,620	4,470	880	2,270	12,530	6,080	2,050	4,400
CT	3,230	2,320	70	840	4,020	2,100	310	1,610	7,330	4,060	780	2,490	14,670	6,440	3,680	4,550
OV	2,540	1,460	680	400	3,790	2,190	700	900	7,230	3,920	1,160	2,150	14,770	6,380	3,960	4,430
EC	3,540	1,840	810	890	4,840	1,750	1,140	1,950	7,620	4,010	1,220	2,390	16,430	7,630	4,210	4,590
81																
N p	2,840	2,650	440	350	2,830	2,040	480	310	7,370	3,280	1,920	2,170	15,210	6,360	4,770	4,080
ar-to-date																
30	$32,930	$25,970	$2,560	$4,400	$34,620	$22,910	$4,020	$ 7,690								
79	44,430	33,110	2,220	9,100	49,350	35,280	3,190	10,880								
78	46,920	32,930	1,690	12,300	54,830	37,690	2,710	14,430								

al is seasonally adjusted separately from components. Total, therefore, may not equal the sum of the parts.

cent coverage is outstanding long term commitments received from investors, divided by the sum of outstanding end of month inventory and outstanding long term commitments issued to borrowers, multiplied by 100.

: All series labeled "non-residential" are also inclusive of farm data.

Mortgage Banker

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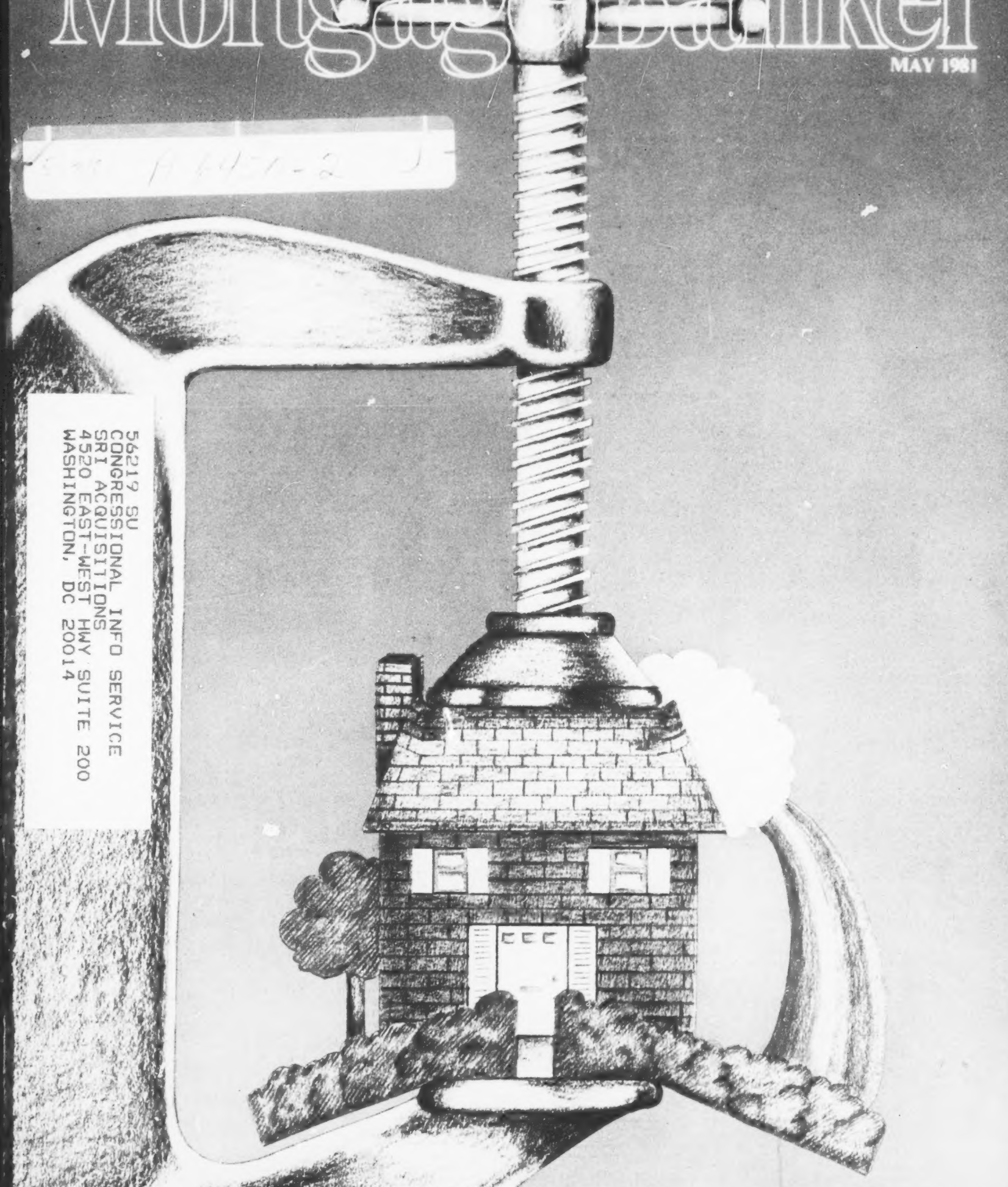

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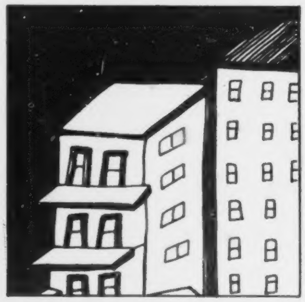
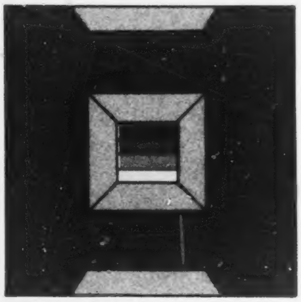
Short-term
Problems
Page 24



Rent
Control
Page 30



Planning for a
Positive Future
Page 48

MBA Officials Urge Administration Attention to Housing Needs 18

On the Conference Floor: Opinion from the Field 21

Short-term Problems: Causes and Cures? 24
Dr. Mark J. Riedy

The Evolution of Rent Control 30
Nina J. Gruen and Claude Gruen

The Case for FHA and GNMA 38

Private Sector Not Ready to Assume FHA Role 41
Eugene Gulledge

Planning for a Positive Future 48
Harvey Moger

How HUD Constructs a Survivorship Schedule 55
Thomas N. Herzog

Departments

Starts 5
Association 5
Letters 7
Industry 11
People 60
Mortgage Market Trends 69
Books 77
Classified Advertisements 82
Advertisers Index 84

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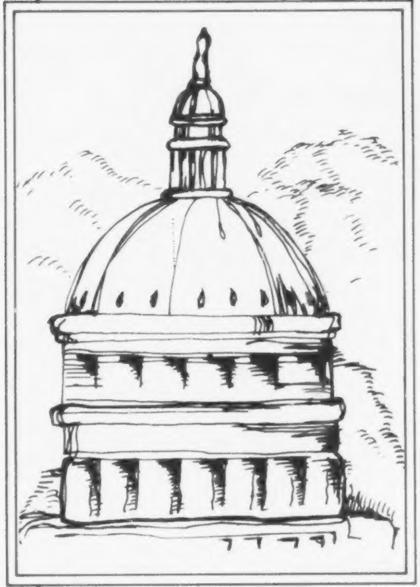

THE CASE FOR FHA AND GNMA

Following are excerpts from the testimony of Dr. Mark J. Riedy, MBA Executive Vice President, before the House Budget Committee's Task Force on Enforcement, Credit and Multi-Year Budgeting.

MBA shares the concern of Congress and the administration over the need to manage the liabilities of the federal government, both actual and contingent. However, this concern must necessarily be balanced against the need to maintain a healthy and stable housing and mortgage finance industry. This is particularly true with respect to actuarially sound, user fee supported, demand programs, such as the FHA and GNMA programs.

MBA opposes the imposition of restrictive credit limits on the actuarially sound, non-subsidized, user fee supported FHA insurance and Government National Mortgage Association Mortgage Backed Securities guaranty programs. While Veterans Administration (VA) mortgage guarantees are not subject to a ceiling, they too will be adversely affected on an indirect basis by the GNMA ceiling. Such limits are counter productive in these self-supporting programs and will impair the ability of the residential mortgage markets to operate smoothly and flexibly.

Inflexible ceilings will increase the cost and reduce the availability of mortgage funds to moderate- and middle-income homebuyers. However, if the Congress, in structuring the federal budget, feels it necessary to project activity levels for the non-subsidized FHA and GNMA programs, it should provide the maximum possible flexibility by setting target figures rather than ceilings in the FY 1982 budget resolution. We believe the $44 billion FY 1982 figure for FHA and the $72 billion figure for GNMA in the initial FY 1982 budget submission are likely to be adequate to meet anticipated demand. It is important to note that the decade of the eighties is a period of unprecedented demand for

Non-Subsidized FHA, GNMA Programs Defended in Hill Testimony

housing, especially among first time homebuyers. Given the extreme difficulties being experienced by this nation's mortgage lenders, it is a particularly inappropriate time to be considering the imposition of inflexible limits on FHA insurance and GNMA guaranty programs.

The success of these programs is due, in part, to their demand nature. Consumers depend on the accessibility to FHA during periods of tight money when conventional mortgage lenders offer mortgage financing on less favorable terms, often requiring higher interest rates and significantly higher downpayments. Mortgage markets depend on the flexibility that FHA and GNMA programs accord them in order to assure adequate sources of affordable financing on reasonable terms at all times. Because the budget crafting process takes place more than a year before economic events may occur, it is not likely that a credit budget could allow mortgage markets the flexibility that is essential to their successful functioning, especially if the limits are not set high enough to accommodate projected demand.

Additionally, these programs cover a large number of loans of relatively small dollar amounts with economic and geographic diversity and are secured by the underlying property. These factors combine to reduce the spectre of limitless federal liability, because the probabilities of massive defaults are diminished substantially by the diverse nature of these insured and guaranteed loans. Actuarial experience has proven this true.

MBA strongly opposes limitations on non-subsidized home loan insurance and guaranty programs because such limitations do not take into account the actuarially sound, user fee supported nature of FHA's most effective nonsubsidized mortgage insurance program for moderate- and middle-income home purchasers (Section 203(b) Single-family; Section 234 Cooperative Housing; Section 244 Co-insurance; and Section 245 Graduated Payment Mortgage) and GNMA's successful MBS program. Administrative problems associated with the implementation of such limitations could severely disrupt the flow of funds into FHA mortgages and the markets for securities guaranteed by GNMA. Further, administrative fiat would replace market forces of supply and demand in allocating FHA loans and the volume of GNMA guaranteed securities, leading to an inefficient and imbalanced allocation of these resources across the nation.

Economic outlook

. . . In previous periods of slow economic growth, such as we are experiencing now, this nation has looked toward the housing industry as a source of renewal, with new housing starts expanding to stimulate a strong recovery. Housing starts hit about 2 million units in 1978 before falling to 1.75 million in 1979 and just 1.3 million starts last year. Most forecasters indicate that housing starts need to average nearly 2.1 to 2.2 million units annually during the decade of the 1980s. Thus, a backlog of potential demand for new construction is inexorably building. However, thrift institutions, which lend the bulk of funds for conventional mortgages, are much more concerned about surviving the squeeze on their earnings and liquidity than they are about financing long-term, fixed-rate mortgage loans . . . The tremendous demand for housing, both teamed with and contributing to continued inflation in house prices, will detonate the 1980s mortgage and capital markets. The volume of funds necessary for future mortgage financing will be expanding, requiring further radical restructuring of the mortgage markets . . .

Historical background

The problems of housing America are tremendous and require many different institutions and functions. The rise of conventional mortgage insurance during the 1960s, development of the secondary market for GNMA and more recently conventional loans during the 1970s, and the current development of alternative mortgage instruments illustrate the dynamic nature of the mortgage market. In all of these evolving areas, no institution stands in a stronger leadership role than the FHA. Groundwork prepared by FHA led to development of standardized documentation, uniform underwriting standards and appraisal techniques, as well as the pattern for, and acceptability of, mortgage default insurance. The FHA has led the way in development of a product with enough uniformity to allow the secondary mortgage market to grow to the point of becoming the major source of residential financing today.

FHA continues to lead the development of mortgage finance as witnessed by its successful introduction of the graduated payment mortgage (GPM) (Section 245) and the Title I mobile home program as a means of aiding the young, first-time homebuyer in the areas of homeownership and affordability.

GNMA

GNMA was established in 1968, and its

Mortgage Backed Security (MBS) program was initiated at that time to introduce alternative sources of capital investment into the secondary mortgage markets. Lenders, who originate mortgages, quite often sell these loans to secondary market investors, rather than holding the mortgages themselves as long term investments. This allows lenders in credit short areas to place their loans in the long term capital markets, so that the local lenders can reinvest their limited capital in additional local mortgages. Mortgage finance now depends upon the accessability of the secondary market. GNMA's MBS program has helped to foster the secondary market and mobilize money on a nationwide basis while providing the necessary assurance for investment in mortgages.

User fee supported programs

... MBA believes that mortgage lending institutions have a proven record of responsibility and protection of the Treasury, dating back to 1934 and the establishment of the FHA. The partnership between private enterprise and the federal government has delivered housing to the American public in an efficient, orderly, and cost-effective manner, with no unexpected cost to the Treasury for nearly half a century.

The non-subsidized FHA and GNMA MBS programs are self-supporting and actuarially sound; user fees not only cover losses, but also they pay for administrative expenses, including salaries, rent, overhead, etc. In fact, the FY 1982 revised budget projections for the next five years indicate that if FHA is subjected to a $35 billion constant ceiling the Treasury will forego revenues of $362 million as follows: $15 million (FY 1982); $36 million (FY 1983); $63 million (FY 1984); $100 million (FY 1985); $149 million (FY 1986). These programs involve the private sector to the maximum degree possible while including enough oversight to protect the potential liability of the federal government inherent in the full guaranty of principal and interest.

The mortgage insurers of conventional mortgages argue that now that such enterprises have perfected the mortgage insurance concept, the limited role of FHA involvement in the mortgage market should be phased out, or restricted to only the subsidized markets that mortgage insurance companies are unwilling to enter. *MBA believes that the non-subsidized FHA programs provide a valuable benefit to homebuyers, without expending the revenues of the*

Table 1

Conventional, FHA and VA Insured and Guaranteed Loans by Unit Volume/1-4 Family Housing

YEAR	MIC	FHA*	VA
1970	59,384	303,378	167,734
1971	163,334	336,787	282,278
1972	396,008	236,716	370,023
1973	499,895	138,680	315,509
1974[**]	330,646	152,859	309,830
1975	322,204	228,540	299,768
1976	450,810	232,358	328,612
1977	617,398	289,172	399,098
1978	695,620	303,465	354,776
1979[**]	578,111	430,973	357,105
1980	392,808	348,414	206,859

* includes unsubsidized 1 to 4 family housing: Sec. 203(b), 234, 344 and 245 (GPM)

Prepared by: Mortgage Bankers Association, Economics Department, March 16, 1981

** Boldface indicates periods of restricted mortgage credit.

Table 2

Comparison of FHA 203(b) loan and a five percent down fixed-rate conventional loan with private mortgage insurance, Washington D.C. area on 3/12/81.

	Conventional	FHA	
Interest Rate	S&L based on FHLMC auction 15.6%	14% + 4 points	
Sales price	78,950	82,000	less 4 points ($3,132) net to seller $78,868
downpayment	−3,950	−3,700	
mortgage amount	75,000	78,300	
CASH AT SETTLEMENT			
Down	3,950	3,700	
Mtge. Ins. Premium	750	0	
	4,700 + closing costs	3,700 + closing costs	
Monthly Payment	75K at 15.6%	78.3K at 14%	
Principal & Interest	985	928	
Mtge. Ins. Premium	(¼%) 15	(½%) 32	
	$1,000	$ 960	
	+ taxes & insurance		

federal government, and that FHA does not compete with private enterprise, but is an insurer of last resort.

Mortgage insurance companies

. . . Over the past two years, the difficulties facing the thrifts and high interest rates have interacted to cause a resurgence in FHA's share of both the total mortgage market, particularly the low downpayment segment involving conventional and FHA mortgage insurance and VA guarantees. Loans insured by mortgage insurance companies, which accounted for over 51 percent of all insured mortgage loans in 1978, declined to less than 43 percent in 1979 and accounted for only 34 percent of those loans during the first six months of 1980.

The difficulty does not lie with the financial capacity of the mortgage insurers, but with the willingness of investors to hold conventional mortgages, especially fixed-rate, conventional mortgages, in today's environment. Traditionally, the bulk of FHA and VA mortgages has been sold to other investors through what is called the secondary market, while most conventional mortgages remained in the portfolio of the thrift that originated the loan.

In the last few years, that situation has begun to change. More savings and loans and banks have begun to sell some or all their new loan production and mortgage bankers, who normally sell all the loans they produce, have increased their conventional activity. The secondary market grew very rapidly until about two years ago when inflation accelerated. As more and more savings and loans became net sellers of loans, and life insurance companies withdrew from the market, a serious imbalance developed. Despite strenuous efforts by the FHLMC, the conventional mortgage insurers, and the Wall Street community, it has not proved possible to develop new non-traditional investment sources at a rate sufficient to offset the decline in the traditional investor base.

As a consequence, yields on conventional mortgages have climbed substantially. In the strong markets of 1977 and 1978, FHLMC PCs sold at yields close to and occasionally lower than GNMA MBSs, and conventionally insured, five percent downpayment mortgages were available to consumers on equal and occasionally better terms than FHA-insured mortgages. Unfortunately, that is no longer true. The secondary market is being badly battered by problems with the thrifts and the huge increase in Treasury borrowings.

Private Sector Not Ready to Assume FHA Role

By Eugene Gulledge
Former FHA Commissioner

Mr. Gulledge recently commented on the Reagan Administration's move to impose credit ceilings on FHA programs. His remarks follow:

I doubt that FHA will be phased out in the near future. The housing industry and the homebuying public need what FHA can offer because these services are not universally available from any other source in the housing market.

I'm a great believer in the private mortgage insurance concept, however, and since 1934, FHA has proved that mortgage insurance can be a profitable operation. Obviously, the government should not be competing with private enterprise in any given area—provided that private enterprise can and indeed *does* render the same service.

At this time, however, it's absolutely untrue that the private mortgage insurance industry is in a position to render the same services that FHA renders to the entire housing market. Private mortgage insurers do not have universal availability; they do not deal with the marginal mortgagors; and they are not yet involved in multi-family insurance programs. I wish them well, and hope the time will come when all the mortgage insurance needs of the country can be handled by the private sector. But right now, I certainly do not see the private mortgage insurance industry as being in that position. Further, I do not think this situation will soon change.

The private mortgage insurance people are not in a position to gamble. As a consequence, there are marginal mortgagors and marginal property locations that private mortgage insurers would not accept. There are areas in different parts of the country, in various communities, where PMIs just do not want to do business. Their underwriting criteria simply will not permit borrowers in those locations to have full access to the credit markets. The PMIs need the equivalent of an assigned risk program to be able to provide insurance for those people in the marginal category—whether income, family situation, or the location of the property is the problem.

The entire housing industry faces an awareness problem. Of the approximately 80 million living units in the United States, 60 percent, or nearly 50 million, are owner-occupied. Less than 10 percent of the owner-occupied units change hands in any one year. Therefore, a large percentage of the people at any given time have no need to consider sale or purchase of a home. Because of this, most citizens do not see the current FHA situation as having much effect on them. But those who are facing the problem of buying or selling a home would be justifiably concerned if FHA's services were eliminated.

I'm certain that the political leaders, both administrative and congressional, would take a dim view of running roughshod over the aspirations of those people who need some type of FHA system of insuring mortgages. The public at large may not be terribly concerned, but then the public at large is not vitally concerned about any issue that does not directly affect it. ☐

Eugene Gulledge is chairman of the board of The Gulledge Corporation, Falls Church, Virginia, a firm specializing in multi-family residential development, syndication, and investment. From 1969-1973 he was HUD's Assistant Secretary for Housing Production and Mortgage Credit, as well as FHA Commissioner. President of the National Association of Home Builders in 1969, he is lifetime director of their board of directors. Also a member of the board of directors of the National Housing Council, he has served on the board of directors of FNMA, and the Federal Home Loan Bank Board.

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The older, more liquid GNMA MBS just barely held its own in 1980, guaranteeing $23.0 billion, up from $22.0 billion in 1979, while newer less well established conventional programs declined in dollar volume and the yield gap increased.

As a result, the price and availability of low downpayment, privately insured mortgages has been severely impacted. For example, in the Washington area today the few institutions offering 5 percent down, fixed-rate conventional loans are charging interest in the 15.6 percent range, whereas the FHA rate is 14 percent. Even after taking into account differences in the insurance premium and assuming the buyer effectively pays the FHA discount via a higher sales price, the FHA loan requires about $1,000 less cash at settlement and is about $40 per month cheaper than a comparable $75,000 privately insured loan.

As the price competitiveness of conventional mortgages deteriorated, the number of new privately insured mortgages declined from a high of 696,000 in 1978 to 578,000 in 1979, and about 400,000 in 1980. This is not due to any weakness or failure on the part of the mortgage insurers who are among the most innovative, aggressive members of the mortgage fraternity. The difficulty stems from the inability of the secondary market to pick up the financing gap left by the thrifts, while simultaneously developing a new mortgage instrument to cope with inflation and competing with unprecedentedly high levels of Treasury borrowing. Until such time as these problems are sorted out, the conventional mortgage market cannot pick up the market share now held by FHA. In fact, conventional mortgage volume and hence the level of activity done by the conventional mortgage insurers is more likely to decline rather than increase over the short term. . . .

At the present time, the conventional mortgage sector is not able to serve its market as well as it did two years ago. It is in no condition to pick up the share now served by FHA. FHA, on the other hand, is an insurer of last resort. When the mortgage market is strong, FHA's market share automatically declines, but when conventional lenders move to the sidelines it picks up some of the slack as an insurer of last resort. For example, in 1978, FHA's market share by dollar volume was less than 8 percent, but in 1980 it rose to about 12 percent. MBA believes that FHA performs an appropriate governmental function with positive countercyclical benefits to the economy as a whole.

MBA opposes any efforts to reduce the number of mortgages FHA can insure by imposing a constant dollar ceiling. We do not feel that actuarially sound, self-sufficient insurance or guaranty programs should be subject to any ceiling. However, we believe that the $44 billion ceiling for FY 1981 proposed by the previous administration, is likely to be adequate to meet anticipated demand. It should be noted that demand for mortgages is highly interest rate sensitive. Demand could increase substantially in the summer and fall of 1982 if there is evidence of substantial progress in controlling inflation and reducing the budget deficit.

While we would hope that the new conventional mortgage instruments will be in use by 1982, the secondary market for those new mortgages will still be in the embryonic phase. Under these conditions, the conventional market will not have the capacity to handle the increased demand, and there could be a compensating spurt in FHA activity. Accordingly, we urge the Congress to set the ceilings on FHA mortgage insurance and GNMA MBS guarantees at

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a level sufficient to meet this contingency. Failure to do so will interfere with the gradual reduction in long-term rates throughout the economy while causing totally unnecessary hardship to homebuyers.

Crowding out

The disappointing industrial performance of the United States over the past five years is a matter of increasing concern. Faced with difficult policy choices, there is a tendency to look for a convenient scapegoat. And, as has so often happened in the past, the nation's *prospective* homebuyers are a tempting target. Since the majority of the nation's households already own their own homes, it is politically tempting to simply shut off the valve and exclude further entry. In fact, in the current high interest rate environment, this is already occurring. According to U.S. League of Savings Associations statistics, the proportion of all homebuyers who were first-time buyers fell from 36 percent in 1977 to only 18 percent in 1979.

Let there be no mistake about it, the administration's proposal to restrict the volume of FHA insurance and GNMA MBS guarantees will have no other result except to reduce the availability of financing for moderate-income persons, a large share of whom are first-time buyers. Although government programs represent approximately one quarter of the total mortgage market, a survey by the National Association of Homebuilders indicates that nearly half of first-time buyers relied on government programs. Reducing FHA activity will not reduce the budget deficit (in fact according to OMB it will increase the deficit slightly) it will not improve pro-

Table 3

Historic Shares: Residential Investment and Residential Mortgage Credit

	Residential Investment as Percent of GNP	Residential Mortgages as Percent of Total Funds Raised
1946	3.58%	—
1947	4.95	31.41
1948	5.78	38.18
1949	5.45	29.64
1950	6.95	31.93
1951	5.37	30.39
1952	5.12	21.57
1953	5.08	25.88
1954	5.54	35.35
1955	6.04	30.45
1956	5.37	34.89
1957	4.78	26.66
1958	4.85	27.45
1959	5.56	25.03
1960	4.94	30.31
1961	4.79	29.70
1962	4.87	28.58
1963	5.15	29.74
1964	4.90	27.90
1965	4.54	24.72
1966	3.82	18.62
1967	3.60	20.89
1968	3.98	18.09
1969	4.05	17.87
1970	3.72	18.83
1971	4.66	23.86
1972	5.29	27.70
1973	5.06	21.16
1974	3.90	17.86
1975	3.37	18.84
1976	4.01	22.31
1977	4.87	26.74
1978	5.07	23.26
1979	4.82	24.47
1980 (est)	3.83	22.41
Mean	4.82	26.03

Source: Federal Reserve Flow of Funds Accounts, Annual New Flows, December 1980.

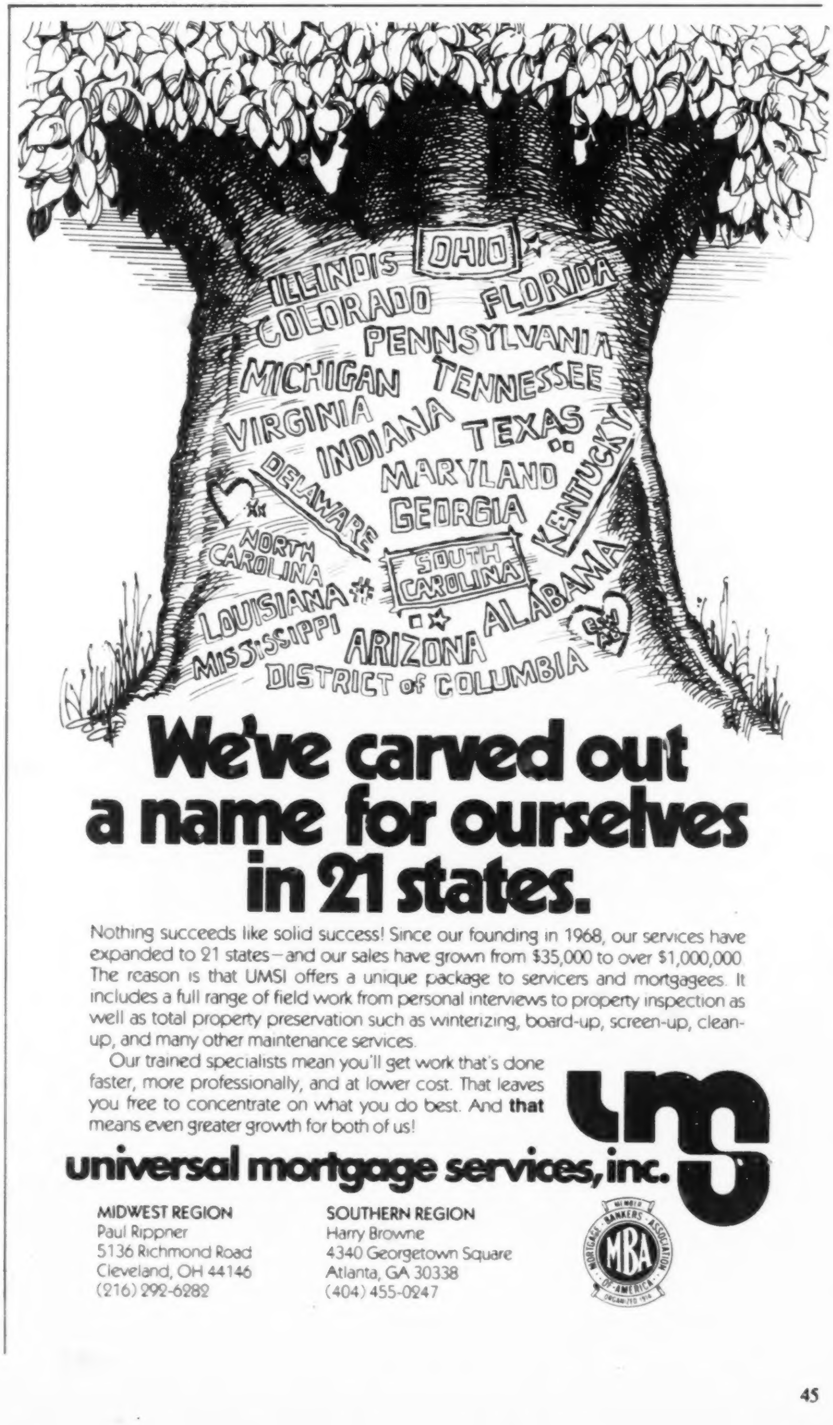

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Table 4

Composition of Credit Demand
Share of Total Funds Raised by Sector
1946–1978
(in billions)

	Average Annual Funds Raised	Business	Residential Mortgages	Consumer Credit	U.S. Treasury	Federal Agencies	State & Local	Other
1946–1949	$24.4*	48.2%	22.4%	12.0%	%*	0.1%	6.4%	10.9%
1950–1959	36.6	37.4	28.5	9.4	5.8	1.8	12.3	4.8
1960–1969	79.9	36.7	24.4	8.9	5.5	4.0	8.6	11.9
1970–1974	254.7	53.0	16.8	5.5	5.7	5.1	5.8	8.1
1975–1978	351.0	24.3	23.3	8.4	19.0	6.8	6.7	16.9
	Average Share	39.9	23.1	8.8	7.2	3.6	8.0	9.4

*During the 1946–1949 period the U.S. Treasury loaned funds of $8.63 million. Thus, the share of total funds raised by the other sectors does not take this amount into account.

Source: Federal Reserve Flow of Funds Accounts, Annual Net Flows, December 1980.

ductivity or increase savings, and it will not lessen the inflation-related benefits accruing to current homeowners.

These problems have many complex causes, but increased mortgage activity is not one of them. In fact, over the past five years residential mortgages accounted for 23.8 percent of total funds raised in the economy, below the 26.03 percent historical average during the post war period. Similarly, residential investment as a percentage of GNP over the last five years has been below the historical average. Despite the fact that the United States has the fastest population growth of any of the Organization of Economic Cooperation and Development (OECD) countries, residential investment's share of GNP is less than that of Japan, Germany, France, and Canada and exceeds only that of Great Britain among the major western industrialized nations.

Why do eminent economists speak of an "explosion" of mortgage credit and argue that housing is taking an unfair share of available funds? As with many economic arguments, the answer depends on the choice of statistics and periods of comparison. In this case, limiting the comparison to the early seventies versus the late seventies shows that business's share of total funds declined from over 53.0 percent to slightly less than a quarter of total funds raised.

This compares with a long-term historical share of about 40 percent of total funds raised. Clearly, the percentage of borrowing devoted to business has been cut in half relative to the unusually high levels of the early seventies, and is currently well below its historical average. However, a careful examination of Table 4 reveals that it is not mortgage activity that has "crowded out" business borrowing, but large increases in U.S. Treasury borrowing and other categories which are at fault. Business borrowing's share declined by 28.7 percent, of which 14.7 percent, or over half, is accounted for by an increase in Treasury borrowings. The other half was absorbed by residential mortgages (+6.5 percent), consumer credit (+2.9 percent), federal agencies (+1.7 percent), state and local government (+1.1 percent), and other, mostly foreign, borrowing (+8.8 percent).

The problems we are facing today are not caused by the housing sector, but rather are the legacy of a government that financed its own uncontrolled growth through inflationary deficit financing at the expense of corporate borrowing.

From this perspective it is clear that while mortgage activity did increase substantially in the late seventies, both in terms of dollar amount and market share, as compared with the early seventies, it merely recaptured its historical share of the market. It did not impinge upon business' historical share.

The recovery of mortgage finance in the mid-seventies is not particularly the result of a bias toward homeownership —although inflation does create such a bias—but rather because the post-World War II baby boom generation, which flooded the campuses and caused so much social turmoil in the early seventies, was beginning to mature. They were now forming families and seeking homeownership. Thus, far from receiving an "unfair share" of available funds in recent years, housing has merely maintained its historical market share, roughly one out of every four investment dollars. In view of the strong competition from the U.S. Treasury and others, this is, of course, no small achievement. It results from the relative attractiveness of investment in housing during an inflationary period and from the tremendous demand for housing created by the post-World War II baby boom generation. . . .

The problems we are facing today are not caused by the housing sector, but rather are the legacy of a government that financed its own uncontrolled growth through inflationary deficit financing at the expense of corporate borrowing, while at the same time demanding that an increasing share of the business investment that did take place be dedicated to compliance with government regulations. Only by attacking the root causes of our problems can we hope to restore the nation's productive capacity. Focusing on prospective homebuyers as a convenient scapegoat will merely postpone the day of reckoning, and, by building up a backlog of unsatisfied demand, will prove counterproductive in the long run. □

Mortgage Market Trends

Prepared by MBA's Economics Department

April 24, 1981

In a surprisingly strong first quarter performance, the nation's gross national product expanded at a 6.5 percent seasonally adjusted annual rate after inflation. Fueled by unique events such as auto rebate programs and a mild winter, it is doubtful that this momentum can be sustained. In fact, many leading indicators are already giving signals that the economy will be sluggish in the second quarter. The large increase in real GNP was primarily due to strong consumer spending, but that spending was based upon reductions in savings rather than on any increase in personal income. The savings rate, an important indicator of future consumer spending, declined sharply in the first quarter to 4.7 percent of disposable income. The February domestic savings rate of 3.9 percent was the lowest monthly level of that index in 30 years. The drop in the savings rate is evidence that consumer spending will be slack in the second quarter. Continued disintermediation will also not help the beleagured housing industry. When these factors are combined with an unemployment rate of 7.3 percent that gives every sign of remaining high, there is little reason to expect strong domestic consumption patterns in the second quarter. In fact, consumers may shift to replenishing their depleted savings accounts in the next three months.

Several other broad-based indicators are also signaling that the economy is slowing down in the second quarter. Retail sales had been increasing at a steady pace, but slowed to an almost imperceptible 0.1 percent growth in March. At the same time that retail sales slowed, producer prices for finished goods rose a hefty 1.3 percent, an annual rate of 15.6 percent. Although much of this increase can be attributed to a 6.1 percent rise in energy prices, other major components of this indicator also rose sharply. Consumer nondurables, for example, jumped 2.4 percent. Prices as measured by the GNP deflator, an index that records what is actually consumed, rose at a slower rate in the first quarter. Preliminary figures show a 7.8 percent annual increase in prices for the first three months of 1981 that compares favorably with the 10.7 percent increase in the same index during the last quarter of 1980. Much of this decline resulted from a significant drop in the use of energy as consumers responded to higher oil prices. Consumption of gasoline declined considerably. It is too early to tell whether this decline in the demand for energy will continue. For the time being at least, it has given the economy a respite from double digit increases in the underlying rate of inflation.

Auto sales, boosted by the industry-wide rebate program, were a major determinant of growth in the first quarter. Now, however, there are signs that with the end of the incentives, sales may fall off sharply through the rest of 1981. The 10.4 million unit annual rate for new car sales in February and early March fell to a 5.1 million annual rate in late March.

The slowdown in economic activity that is now beginning could contain a bit of good news for mortgage lenders. Falling business loan demand has caused the prime rate to begin a downward trend. Already the prime has fallen to 17½ percent from its January peak of

21½ percent. And despite some temporary upward movement, short-term rates should fall even further. As in the past, this could signal a decline in long-term rates as well. Although it will not drop as rapidly or as deeply as the prime rate, we could see a conventional mortgage rate of 13 percent by midsummer. The good news will come if this lower mortgage rate revives real estate sales that have been at low levels for months.

So far, housing starts have been stronger than expected in the face of high rates and stagnant personal income. Preliminary figures for March show 1.28 million units started on a seasonally adjusted annual basis. For the first quarter of 1981, housing starts have been running at a 10 percent higher rate than during the first quarter of 1980. Unfortunately, this pace should slow in the second quarter. Permits, a good indicator of future activity, fell 3.2 percent in March following a more than 5 percent drop in February. One reason for this drop may be that builders are slimming their already lean inventories in the face of a lack of available mortgage credit.

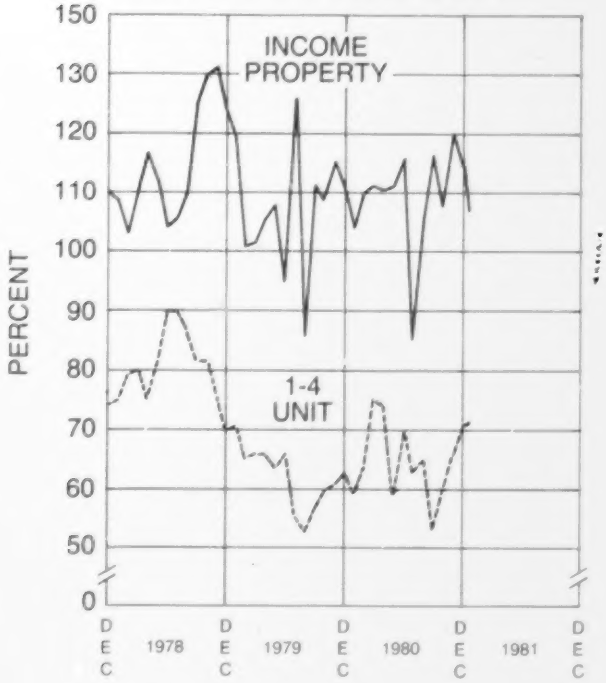
The Federal Reserve Board holds the key to the eventual severity of any second quarter downturn. If the Board continues to use a tight money policy as an inflation-fighting tool, the downturn will be accelerated. There is evidence that the federal government is worried about a repeat of last year when a temporary easing of the monetary brake produced an explosion of credit demand and a higher inflation rate. In an effort to avoid this, the Board of Governors seems to be rejecting any move that would deflect it from its goal of a highly restrictive monetary policy. Until the federal government finally balances the budget, restrictive monetary policy even with all of its faults, is the only anti-inflation program around. For the long term health of the economy in general, and particularly for the housing sector, the outcome of the current budget debate on Capitol Hill is crucial. Without a firm commitment to bring down the inflation rate and achieve balanced growth, the housing market will be subjected to high interest rates for a long time to come.

The slowing of economic activity expected during the second and third quarters of 1981 should lead to a reduction of interest rates. Eventual passage of the federal spending cuts requested by the administration should signal the start of a significant decline in rates, just as the failure of the cuts to pass Congress in late March signaled the upturn in rates. A reduction in the federal deficit would reduce the government's demand for credit, thereby allowing available funds to flow into private capital markets. By mid-summer the effect of a reduction in the federal deficit should be apparent and interest rates should be approaching their low point for the year.

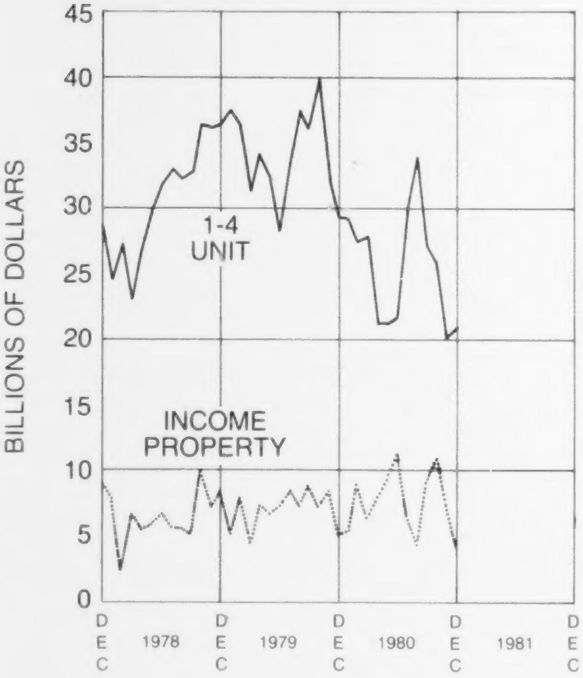
The effects of any tax cut likely to get through Congress this year should be more easy to estimate by mid-summer. The extent of the tax cut will be crucial because any reduction in tax revenues will further increase the deficit and increase consumer demand. Any tax cut that does occur this year will stimulate the demand for credit and will cause interest rates to begin rising, probably during the final third of the year.

Peter E. Brereton, Assistant Economist

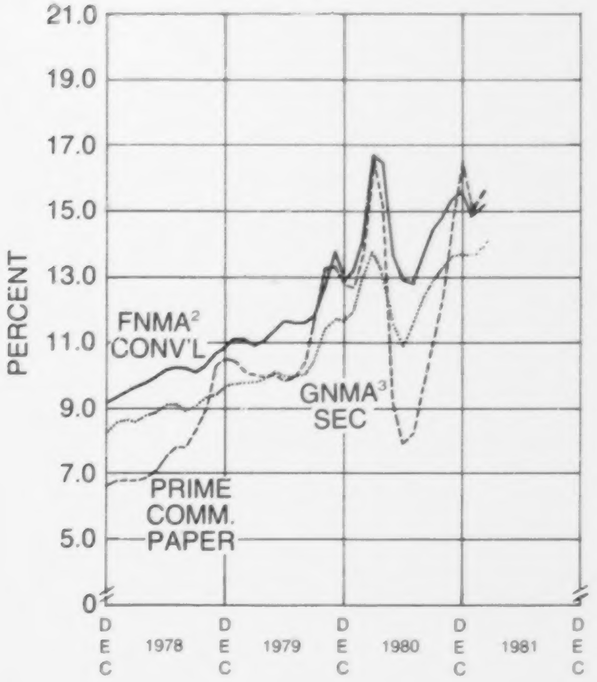
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE[1]



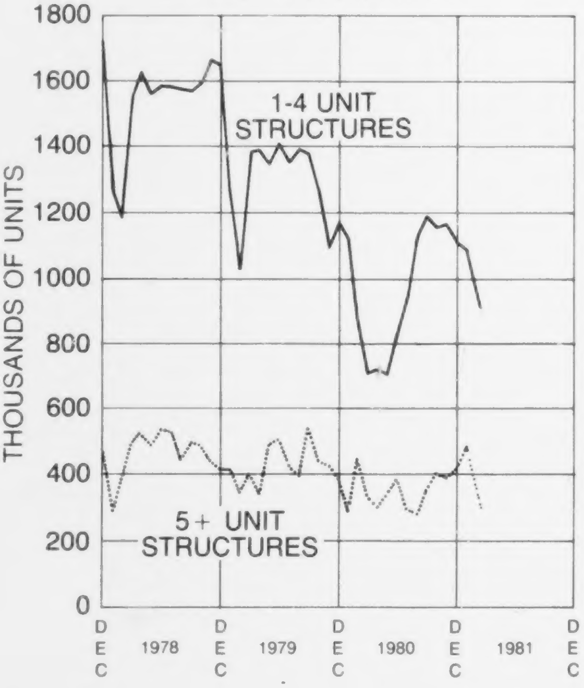
MORTGAGE BANKERS LONG-TERM MORTGAGE LOANS CLOSED[4]



SELECTED YIELDS



HOUSING STARTS[4]



FOOTNOTES

[1] OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100

[2] WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH

[3] SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY

[4] SEASONALLY ADJUSTED ANNUAL RATES

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION

MBA—ECONOMICS DEPARTMENT

MORTGAGE MARKET TRENDS—MAY 1981

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1979												
DEC	81	52	29	1,244	899	345	92	65	27	1,548	1,165	383
1980												
JAN	75	52	23	1,264	882	382	73	56	17	1,419	1,219	290
FEB	76	54	22	1,142	801	341	80	55	25	1,330	887	443
MAR	82	56	26	932	627	305	85	59	26	1,041	705	336
APR	77	54	23	789	536	253	96	71	25	1,030	728	302
MAY	77	56	21	825	576	249	92	75	19	913	714	199
JUN	101	69	32	1,078	721	357	116	84	32	1,223	832	391
JUL	113	84	29	1,236	900	336	119	94	25	1,249	951	298
AUG	116	86	30	1,361	988	373	129	104	25	1,416	1,139	277
SEP	143	94	49	1,564	1,060	504	138	107	31	1,545	1,189	356
OCT	127	89	38	1,333	953	380	154	112	42	1,561	1,157	404
NOV	95	65	30	1,355	953	402	112	82	30	1,563	1,167	396
DEC	88	56	33	1,235	869	366	96	65	31	1,535	1,105	430
1981												
JAN	70	47	23	1,228	857	371	82	57	25	1,615	1,138	477
FEB	72p	49p	22p	1,143p	793p	350p	72p	54p	18p	1,218p	906p	312p
2 months												
1980	151	106	45				153	111	42			
1979	178	121	54				173	129	44			
1978	184	131	58				190	148	42			
1977	177	133	44				194	157	37			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

HOUSE SALES

(Units in thousands)

Year and Month	VALUE OF NEW CONSTRUCTION PUT IN PLACE: Seasonally Adjusted Annual Rate				EXISTING HOUSES[1]	NEW HOUSES		
	Total	1 Unit	2+ Units	Non-Res		Sold	Available For Sale	Months Supply at Current Rate
1979								
DEC	132,078	57,753	20,751	53,574	197	34	403	11.8
1980								
JAN	137,295	58,439	22,224	56,632	209	43	393	9.2
FEB	130,053	54,463	20,664	54,926	220	44	381	8.7
MAR	120,768	48,797	19,628	52,343	243	43	370	8.6
APR	113,411	42,980	17,723	52,708	224	36	361	10.2
MAY	108,104	38,057	17,131	52,916	219	43	349	8.1
JUN	104,786	35,750	16,150	52,886	233	48	342	7.2
JUL	101,629	37,263	14,922	49,444	275	55	339	6.2
AUG	105,162	40,380	15,647	49,135	286	60	332	5.6
SEP	109,738	44,448	16,286	48,974	293	48	339	7.1
OCT	113,773	48,661	14,938	50,174	282	44	343	7.8
NOV	120,271	50,994	18,198	51,079	210	37	344	9.2
DEC	125,692	52,954	18,181	54,557	187	34	337	10.2
1981								
JAN	134,067	56,117	19,288	58,662	166	36p	331p	9.3p
FEB	131,435p	53,836p	20,669p	56,930p	175p	38p	325p	8.4p
2 months								
1980					429	87		
1979					504	111		
1978					500	120		
1977					438	125		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1979																
DEC	10	12	34	25	144	224	517	359	10	15	40	27	156	326	667	399
1980																
JAN	5	8	39	23	116	221	577	350	6	6	40	22	194	213	673	339
FEB	5	8	39	24	125	178	524	315	3	8	47	23	73	223	701	333
MAR	10	10	40	22	122	120	442	248	7	12	45	21	105	178	511	247
APR	8	12	37	20	86	116	385	202	10	15	48	23	130	156	487	257
MAY	9	13	36	19	98	122	399	206	12	15	45	21	129	122	459	203
JUN	11	15	48	27	114	142	534	288	13	21	58	24	120	179	679	245
JUL	12	20	50	32	119	208	566	343	12	20	60	27	194	193	664	278
AUG	11	19	53	33	117	213	650	381	13	21	63	32	128	224	694	370
SEP	14	26	69	35	143	242	770	409	17	30	61	30	216	288	679	362
OCT	14	26	56	31	139	247	597	350	12	34	75	32	107	310	782	362
NOV	10	17	44	25	124	225	639	367	10	23	55	24	111	305	783	364
DEC	9	13	52	22	111	209	623	292	9	13	52	22	131	259	793	352
1981																
JAN	5	6	40	18	102	190	641	295	5	8	30	18	152	328	855	280
FEB	4p	7p	41p	19p	107p	172p	587p	277p	3p	6p	45p	18p	92p	190p	666p	270p
2 months																
1980	10	16	78	47					9	14	87	45				
1979	16	18	82	61					14	14	88	57				
1978	14	26	77	69					7	25	90	68				
1977	13	26	66	73					9	23	84	77				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1979						
DEC	1,140	717	423	174	139	35
1980						
JAN	1,088	678	410	125	94	31
FEB	1,041	644	397	126	89	37
MAR	991	609	382	130	90	40
APR	953	588	365	135	93	42
MAY	918	570	348	120	87	33
JUN	900	566	334	131	89	42
JUL	890	572	318	125	82	43
AUG	887	576	311	128	96	32
SEP	905	601	304	116	81	35
OCT	935	620	315	120	89	31
NOV	932	632	312	114	81	33
DEC	918	657	311	129	99	30
1981						
JAN	892	570	313	88	69	18
FEB	871p	553p	318p	93p	71p	22p
2 months						
1980				251	183	68
1979				256	198	58
1978				242	189	53
1977				213	180	39

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				FMS Auction Yields on 4 mo. Commitments[6]			Aaa Utility New Issue	U.S. Gov't		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
	FHA New[3]	Conventional New	Conventional Existing	Conventional New	Conventional Existing			FHA/VA	Conv.			10-yr	26-wk			
1979																
DEC	12.24	12.50	12.50	11.64	11.89	11.875-12.000		12.485	12.981	11.56	11.25	10.39	11.847	13.24	99	117
1980																
JAN	12.60	12.80	12.80	11.87	12.10	11.875-12.250		12.930	13.188	11.96	11.73	10.80	11.851	13.04	87	116
FEB	n.a.	14.10	14.10	11.93	12.62	13.000-14.000	15.77	14.589	14.124	13.02	13.57	12.41	12.721	13.78	n.a.	61
MAR	14.63	16.05	16.05	12.62	12.87	n.a.		15.581	16.665	13.69	14.00	12.75	15.100	16.81	63	94
APR	13.45	15.55	15.55	13.03	13.57	n.a.		14.670	16.451	13.17	12.90	11.47	13.618	15.78	55	170
MAY	11.99	13.20	13.20	13.67	14.12	13.000-15.000	18.32	12.855	13.535	11.54	11.53	10.18	9.149	9.49	46	136
JUN	11.85	12.45	12.45	12.69	13.31	12.250-12.750		12.360	12.946	10.89	10.96	9.78	7.218	8.27	89	111
JUL	12.39	12.45	12.45	12.48	12.61	12.500-13.500		12.630	12.807	11.53	11.60	10.25	8.101	8.41	79	128
AUG	13.54	13.25	13.25	12.25	12.26	13.000-14.500	13.16	13.873	13.663	12.33	12.32	11.10	9.443	9.57	122	123
SEP	14.26	13.65	13.70	12.36	12.38	13.000-14.000		14.819	14.450	12.86	12.74	11.51	10.546	10.97	152	135
OCT	14.38	14.10	14.10	12.60	12.64	13.500-14.500		14.965	14.791	13.24	13.18	11.75	11.566	12.52	120	149
NOV	14.47	14.70	14.70	13.08	13.29	n.a.	15.31	15.530	15.280	13.69	13.85	12.68	13.612	15.18	62	101
DEC	14.08	15.05	15.05	13.28	13.58	n.a.		15.192	15.568	13.71	14.51	12.84	14.770	18.07	43	87
1981																
JAN	14.23	14.95	14.95	13.28	13.91	n.a.		14.870	14.923	13.65	14.12	12.57	13.883	16.58	11	108
FEB	14.79p	15.10p	15.10p	13.54p	14.13p	n.a.		15.261p	15.108p	14.16p	14.90p	13.19p	14.134p	15.49p	11	103

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5 + Units					Nonresidential				
	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos.
1979																				
SEP	18,956	3,955	7,738	5,820	1,443	14,395	3,032	7,012	4,113	238	1,254	469	351	263	171	3,306	453	375	1,444	1,034
OCT	21,394	4,141	8,879	6,869	1,505	16,913	3,690	7,994	5,009	220	921	91	488	191	151	3,560	360	397	1,669	1,134
NOV	18,362	3,526	7,230	6,175	1,431	13,823	2,833	6,480	4,260	250	831	148	338	223	122	3,708	545	412	1,692	1,059
DEC	15,040	3,338	5,223	5,018	1,461	11,801	2,552	4,584	3,338	427	792	130	270	251	141	3,346	655	369	1,429	893
1980																				
JAN	12,134	2,588	4,070	4,073	1,403	8,731	2,271	3,589	2,703	168	588	82	208	204	94	2,816	236	273	1,166	1,141
FEB	11,975	2,733	4,281	3,802	1,159	8,469	2,055	3,805	2,361	248	919	454	204	148	113	2,587	224	272	1,293	798
MAR	14,187	2,632	5,487	4,509	1,559	10,372	2,085	4,955	2,899	433	517	72	224	135	86	3,298	475	308	1,475	1,040
APR	12,363	2,297	4,707	4,111	1,248	8,868	1,662	4,216	2,749	241	614	94	218	137	165	2,881	541	273	1,225	842
MAY	9,852	2,080	3,536	3,301	935	6,860	1,606	2,996	2,051	207	429	41	220	102	66	2,563	433	320	1,148	662
JUN	10,873	2,830	4,076	2,872	1,095	7,351	1,910	3,533	1,794	114	1,099	596	248	167	88	2,423	324	295	911	893
JUL	12,555	3,020	5,468	2,947	1,120	9,560	2,530	4,885	2,041	104	615	100	313	94	108	2,380	390	270	812	908
AUG	15,579	3,160	7,722	3,710	1,167	12,675	2,780	7,089	2,732	74	626	60	276	162	128	2,458	320	357	816	965
SEP	17,767	3,360	8,597	4,942	868	14,026	2,490	7,818	3,635	83	1,007	440	364	116	87	2,734	430	415	1,191	698
OCT	17,746	3,030	8,423	5,151	1,142	13,806	2,350	7,616	3,786	72	926	240	327	183	176	2,996	440	480	1,182	894
NOV	13,249	2,280	5,913	3,923	1,133	9,903	1,690	5,316	2,847	50	670	190	226	142	112	2,676	400	371	934	971
DEC	14,623	3,040	6,035	4,106	1,442	9,911	2,050	5,277	2,563	21	1,190	480	272	237	201	3,522	510	486	1,306	1,220

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos.
1979										
AUG	85,014	14,153	28,379	13,195	29,287	19,816	5,466	8,852	3,335	2,163
SEP	85,090	14,619	28,373	11,974	30,124	16,809	4,073	7,730	2,530	2,476
OCT	83,042	14,258	27,084	11,493	30,207	16,943	4,014	7,992	2,916	2,021
NOV	79,324	14,824	23,714	11,315	29,471	12,023	3,415	4,741	2,407	1,460
DEC	73,350	13,473	21,467	10,504	27,906	8,533	2,608	3,248	1,892	785
1980										
JAN	67,753	11,983	20,502	8,929	26,339	8,579	2,984	3,510	1,545	540
FEB	68,818	12,333	21,351	9,717	25,417	9,400	2,046	5,017	1,637	700
MAR	66,122	11,974	20,424	9,215	24,509	9,924	2,372	4,782	1,850	920
APR	60,999	10,500	18,597	8,286	23,616	7,126	1,964	3,147	1,276	739
MAY	58,833	10,336	17,762	8,011	22,724	7,051	2,958	2,802	901	390
JUN	58,058	9,960	18,848	7,651	21,599	9,036	2,850	4,580	1,250	366
JUL	63,525	13,750	21,310	7,769	20,696	12,568	3,050	7,128	1,626	764
AUG	65,653	12,640	23,876	9,032	20,105	14,951	2,680	9,510	2,076	685
SEP	66,681	12,800	24,476	9,230	20,175	15,381	2,500	8,858	2,676	1,347
OCT	66,925	14,670	23,641	8,899	19,715	13,557	3,230	7,305	2,142	880
NOV	65,262	14,770	22,790	8,629	19,063	10,048	2,540	5,146	1,608	754
DEC	63,812	16,430	20,857	8,582	17,943	10,292	3,540	4,460	1,675	617

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA VA	Private	Units	Amt	Units	Amt	Units	Amt	Units	Amt
1979											
AUG	177	118	59	116	5,042	25	912	35	1,695	56	2,435
SEP	150	100	50	104	4,646	20	744	39	1,910	45	1,992
OCT	155	98	57	104	4,580	29	1,092	22	1,100	53	2,388
NOV	116	76	40	102	4,493	27	1,004	29	1,391	46	2,098
DEC	79	50	29	91	4,117	20	769	31	1,531	40	1,817
1980											
JAN	90	66	24	100	4,534	31	1,142	39	1,956	30	1,436
FEB	91	63	28	71	3,153	21	753	26	1,301	24	1,099
MAR	101	61	40	74	3,371	18	696	27	1,329	29	1,346
APR	90	58	32	76	3,473	20	746	23	1,149	33	1,578
MAY	101	76	25	56	2,608	13	483	17	848	26	1,277
JUN	105	78	27	50	2,273	13	502	15	741	22	1,030
JUL	138	99	39	63	2,904	20	823	16	817	27	1,264
AUG	139	89	50	70	3,389	23	958	17	944	30	1,487
SEP	136	76	60	94	4,592	23	945	30	1,624	41	2,023
OCT	115	59	56	95	4,580	24	990	21	1,133	50	2,457
NOV	90	48	42	79	3,824	18	725	21	1,135	40	1,964
DEC	95	50	45	82	3,995	20	836	18	954	44	2,205

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA					FHLMC			GNMA	
	4-Month Commitments				12 Month Convert Standby	Comm.	Purc.	Sold	Pass-Through Securities	
	FHA/VA Bid	FHA/VA Accept	Conventional Bid	Conventional Accept					Applications	Issued
1979										
DEC	649	249	413	152	0	199	403	211	3,539	1,894
1980										
JAN	516	232	443	247	26	296	279	180	4,265	2,611
FEB	1,169	564	412	148	225	197	248	207	2,178	1,354
MAR	1,267	426	919	240	242	186	193	106	5,124	1,125
APR	494	199	135	66	85	189	231	200	4,509	1,778
MAY	609	214	280	109	62	491	176	391	5,281	1,127
JUN	603	267	170	76	92	577	225	230	6,627	1,320
JUL	1,255	506	229	141	72	702	440	288	5,322	1,874
AUG	1,347	775	430	219	112	476	495	320	4,936	2,215
SEP	1,268	741	348	210	102	218	521	275	6,850	1,807
OCT	584	344	108	64	100	221	398	193	7,757	2,255
NOV	331	176	82	69	214	180	231	88	2,277	1,613
DEC	309	137	85	54	180	126	285	48	3,575	1,569
1981										
JAN	275	122	32	30	78	203	152	168	3,656	1,300
FEB	199	115	118	79	41	294	174	94	2,231	1,306

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5 + Units	Non-res.		Total	1-4 Units	5 + Units	Non-res.
1979									
DEC	249	92	44	113	35	3,552	1,082	981	1,489
1980									
JAN	231	84	42	105	27	3,554	1,196	1,079	1,279
FEB	207	80	49	78	31	4,512	1,160	1,652	1,700
MAR	259	91	46	121	24	4,272	1,201	1,585	1,486
APR	191	71	40	81	59	3,484	1,104	1,042	1,338
MAY	209	88	47	74	72	4,254	965	1,789	1,500
JUN	243	89	47	107	55	4,209	1,016	1,604	1,589
JUL	376	100	61	215	73	3,954	1,093	1,322	1,539
AUG	310	130	70	110	70	4,390	1,250	1,240	1,830
SEP	310	139	73	98	78	4,537	1,382	1,814	1,341
OCT	281	114	55	112	420	5,140	1,625	1,900	1,615
NOV	286	87	115	84	121	6,202	1,106	2,568	2,528
DEC	411	220	71	120	94	6,148	1,102	2,502	2,544
1981									
JAN	355	187	58	111	220	5,854	1,481	2,886	1,487
FEB	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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n.a.-Not available; p-Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields.

[4] Benchmark rates, Citicorp Real Estate, Inc.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

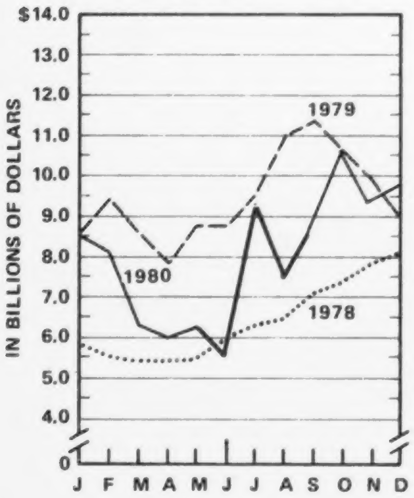
[8] Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate, Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

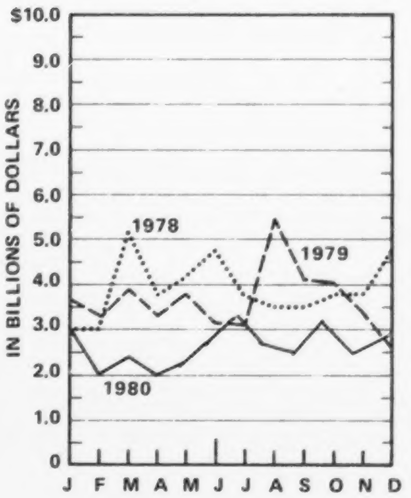
MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGES

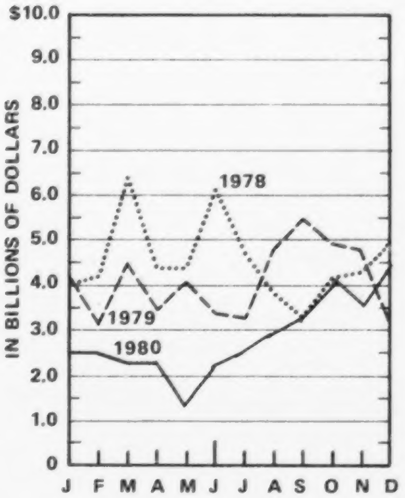
Inventory: Own Account



Commitments Issued

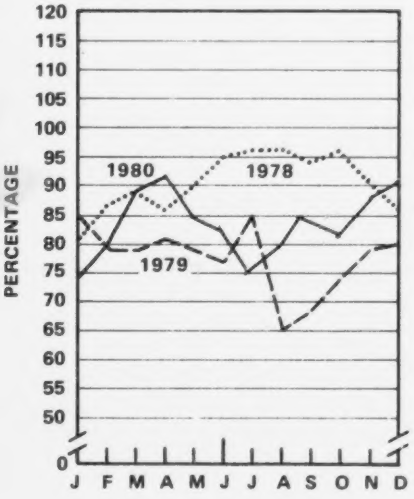


Commitments Received

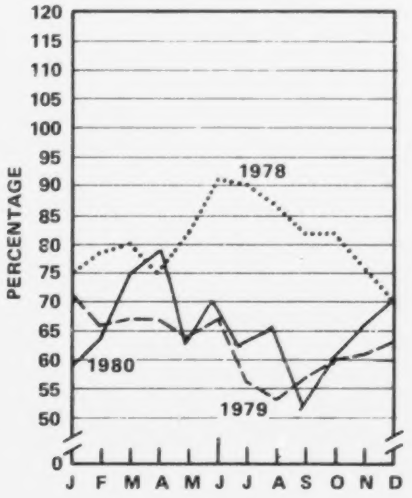


COVERAGE[1]

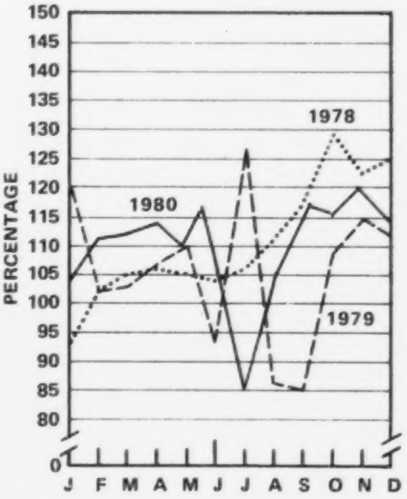
All Loans



1-To 4-Unit Loans



Income Property Loans



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[1] Percent coverage is outstanding long-term commitments received from investors, divided by the sum of outstanding end of month inventory and outstanding long-term commitments issued to borrowers, multiplied by 100.

Note: Data are estimates for all mortgage banking members of MBA. Estimates for the **699** mortgage banking members are based on a sample of firms representing **25** percent of the total long-term originations in the industry. The current month's data are preliminary and will be revised the following month. Once each year when new annual benchmark data for the industry becomes available, the monthly data are again revised to match the annual industry totals published in *Mortgage Banking: Loans Closed and Servicing Volume*. The latest benchmark revisions were made effective with the December **1978** benchmarks.

Source: MBA Economics Department

(All dollar amounts are in millions)

LOANS CLOSED

Year and Month	LONG-TERM MORTGAGE LOANS													CONSTRUCTION LOANS
	Seasonally Adjusted				Not Seasonally Adjusted									
						1-4 Units				5 Units or More				
	Total[1]	1-4 Units	5 Units or More	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total
1980														
JAN	$ 2,830	$ 2,440	$ 140	$ 320	$ 2,590	$ 2,270	$ 710	$ 710	$ 850	$ 80	$ 0	$ 80	$ 240	$ 560
FEB	2,900	2,300	580	170	2,740	2,060	740	720	600	460	350	110	220	490
MAR	3,060	2,320	60	470	2,630	2,090	750	710	630	70	40	30	470	460
APR	2,340	1,770	60	610	2,300	1,660	530	470	660	100	20	80	540	510
MAY	2,450	1,740	70	680	2,080	1,610	580	470	560	40	0	40	430	690
JUN	2,620	1,820	400	520	2,760	1,970	950	660	360	420	110	310	370	540
JUL	2,950	2,470	80	480	3,020	2,530	1,170	910	450	100	90	10	390	1,960
AUG	3,030	2,830	60	310	3,160	2,780	1,180	1,060	540	60	60	0	320	1,150
SEP	2,950	2,270	370	390	3,280	2,460	1,000	880	580	440	440	0	380	380
OCT	2,760	2,160	470	460	3,030	2,350	880	780	690	240	170	70	440	500
NOV	2,300	1,680	190	440	2,280	1,690	580	550	560	190	160	30	400	300
DEC	2,620	1,900	380	250	3,040	2,050	750	660	640	480	410	70	510	780
1981														
JAN p	3,090	1,510	1,990	410	2,830	1,400	530	430	440	1,130	750	380	300	340
Year-to-date														
1980	$32,800	$25,700	$2,870	$5,110	$32,910	$25,520	$9,820	$8,580	$7,120	$2,680	$1,850	$ 830	$4,710	$8,320
1979	41,590	34,190	2,520	4,600	41,410	34,160	12,090	11,910	10,160	2,760	1,350	1,410	4,490	11,210
1978	37,300	30,920	2,560	3,980	37,770	31,150	10,040	11,000	10,110	2,450	920	1,530	4,170	7,520

OUTSTANDING END OF MONTH INVENTORY

COVERAGE[2]

Year and Month	LONG TERM MORTGAGE LOANS									CONSTRUCTION LOANS						
		1-4 Units				5 Units or More										
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	1-4 Units	5 Units or More	Non-Res.
1980																
JAN	$ 8,500	$6,760	$2,110	$1,690	$2,960	$ 750	$ 50	$700	$ 990	$2,410	$ 870	$590	$950	59%	112%	102%
FEB	8,080	6,440	1,950	1,570	2,920	550	30	520	1,090	2,360	860	560	940	64	136	103
MAR	6,310	4,720	1,220	1,100	2,400	590	40	550	1,000	2,430	930	580	920	75	137	104
APR	5,800	4,120	1,020	870	2,230	680	10	670	1,000	2,310	800	570	940	74	137	103
MAY	5,760	4,050	1,010	830	2,210	780	10	770	930	2,190	780	580	830	59	134	105
JUN	5,690	3,840	1,240	870	1,730	960	20	940	890	2,460	810	590	1,060	70	141	103
JUL	9,260	4,900	1,550	1,170	2,180	2,430	1,500	930	1,930	2,480	760	660	1,060	63	121	85
AUG	7,560	5,070	1,710	1,370	1,990	940	30	910	1,550	2,490	900	610	980	65	123	96
SEP	9,230	6,910	2,200	2,040	2,670	940	30	910	1,380	2,580	880	650	1,050	53	113	120
OCT	10,530	6,710	2,030	1,730	2,950	2,390	1,510	880	1,430	2,520	810	690	1,020	60	116	116
NOV	9,480	5,810	1,620	1,350	2,840	2,340	1,550	790	1,330	2,960	820	860	1,280	66	113	129
DEC	11,200	7,060	1,920	1,560	3,580	2,640	1,540	1,100	1,500	3,190	840	940	1,410	69	109	118
1981																
JAN p	9,790	5,680	1,540	1,130	3,010	2,580	1,480	1,100	1,530	2,920	870	790	1,260	71	106	110

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH							
	To Borrowers				From Investors				To Borrowers				From Investors			
	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.
1980																
JAN	$ 2,990	$ 2,690	$ 100	$ 200	$ 2,500	$ 1,950	$ 330	$ 220	$ 7,760	$4,270	$ 540	$2,950	$11,980	$6,540	$1,440	$4,000
FEB	2,050	1,820	60	170	2,490	2,210	80	200	7,380	3,780	740	2,860	12,340	6,530	1,750	4,060
MAR	2,380	2,040	90	250	2,260	1,830	170	260	7,120	3,680	710	2,730	11,980	6,330	1,780	3,870
APR	1,970	1,680	40	250	2,180	1,500	170	510	6,080	3,170	520	2,390	10,510	5,370	1,650	3,490
MAY	2,960	2,730	90	140	1,550	1,290	100	160	7,120	3,820	570	2,730	10,340	4,680	1,810	3,850
JUN	2,840	2,480	160	200	2,280	1,430	540	310	7,670	4,320	830	2,520	12,850	6,810	2,530	3,510
JUL	3,050	2,850	70	130	2,540	2,190	150	200	9,190	5,000	1,440	2,750	13,750	6,520	3,250	3,980
AUG	2,680	2,090	190	400	2,990	2,240	110	640	8,200	4,830	950	2,420	12,640	6,480	2,330	3,830
SEP	2,700	1,970	200	530	3,180	2,230	220	730	7,620	4,470	880	2,270	12,530	6,080	2,050	4,400
OCT	3,230	2,320	70	840	4,020	2,100	310	1,610	7,330	4,060	780	2,490	14,670	6,440	3,680	4,550
NOV	2,540	1,460	680	400	3,790	2,190	700	900	7,230	3,920	1,160	2,150	14,770	6,380	3,960	4,430
DEC	3,540	1,840	810	890	4,840	1,750	1,140	1,950	7,620	4,010	1,220	2,390	16,430	7,630	4,210	4,590
1981																
JAN p	2,840	2,650	440	350	2,830	2,040	480	310	7,370	3,280	1,920	2,170	15,210	6,360	4,770	4,080
Year-to-date																
1980	$32,930	$25,970	$2,560	$4,400	$34,620	$22,910	$4,020	$ 7,690								
1979	44,430	33,110	2,220	9,100	49,350	35,280	3,190	10,880								
1978	46,920	32,930	1,690	12,300	54,830	37,690	2,710	14,430								

[1] Total is seasonally adjusted separately from components. Total, therefore, may not equal the sum of the parts.

[2] Percent coverage is outstanding long-term commitments received from investors, divided by the sum of outstanding end of month inventory and outstanding long-term commitments issued to borrowers, multiplied by 100.

Note: All series labeled "non-residential" are also inclusive of farm data.

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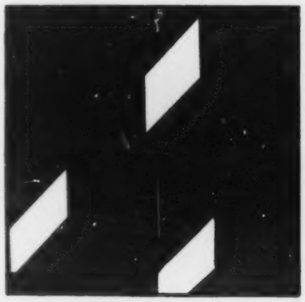
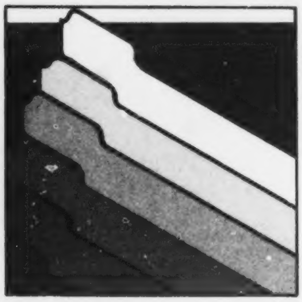
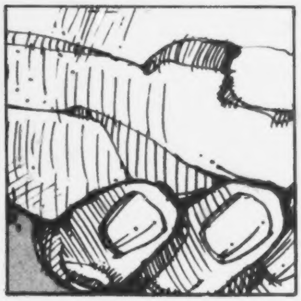


Second Mortgage Conduits
Page 24



Making the Most of Change
Page 45



Personal Guarantees of Repayment
Page 54

Conversation with David O. Maxwell 18

Second Mortgage Conduits: Link to the Capital Markets 24
Roger B. Stephens

Caveat Faenerator (Let The Lender Beware) 29
James A. Brodsky and Garth Wainman

Deregulation and the Mortgage Lender: A Mixed Blessing 36
Tom Naef and Sam Leaman

Making the Most of Change 45
John M. Dwyer and Douglas E. Johnson

Floodplains: Dangerous Terrain for Lenders and Developers 50
Norman R. Klopfenstein

Why Lenders Should Require Personal Guarantees of Repayment 54
Richard Ridloff

MORPAC: An Investment In America 56

Departments

Starts 5
Association 5
Letters 7
Industry 9
People 58
Mortgage Market Trends 65
Books 72
Classified Advertisements 74
Advertisers Index 75

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Mortgage Market Trends

Prepared by MBA's Economics Department

May 20, 1981

The use of the prime rate as a barometer of the credit markets is a time-honored tradition. As with all traditions, however, one should take a periodic look at just how well it agrees with reality. In this case, it is reasonable to wonder whether the recent increases in the prime rate will herald a run-up in interest rates reminiscent of last spring.

The causes behind the increases in short-term rates, though worrisome, are anything but static. The scorching 6.5 percent advance in real GNP provided investors with sufficient reason to bid down bond prices. Also, the concern over federal deficit projections has led many to conclude that large Treasury offerings may become the only constant feature of the debt markets. In addition, loan demand at banks and in the commercial paper market has been unseasonably strong.

All of these forces, however, may shift into reverse. Preliminary information in several areas indicates that this is precisely what is happening. The second quarter GNP statistics will no doubt reflect a slowdown caused by high interest costs and declining retail sales activity. Several forecasters are predicting a decline in real GNP for the second quarter, and the market would react favorably to even a small increase in production.

In Congress, the concern over the deficit has engendered a bipartisan effort to both reduce and postpone the administration's proposed tax reduction. If this effort succeeds, the onerous competition in the capital markets produced by the demands of the U.S. Treasury should be reduced significantly. When the federal debt profile is reduced, both institutional and retail investors should become more aggressive. This shift in market psychology would become even more pronounced should the Federal Reserve become more adept at managing a steadier course for the monetary aggregates. As far as loan demand is concerned, many businesses have shifted to an extremely short-term debt posture. This behavior will have a declining effect on the market because it is the manifestation of short-range financial plans. Therefore, when businesses decide to refinance along a more conventional maturity pattern, the commercial loan market will begin to soften appreciably.

Even though the prime rate will come under some amount of downward pressure, there is little reason to assume this movement will ripple into the long-term market. The underlying weakness of the bond market has remained through both slow and active portions of the business cycle, indicating that investors are operating in a climate of extreme uncertainty. Meanwhile, borrowers are reluctant to bring issues to a market characterized by record high yields. Only the U.S. Treasury has remained in the long-term market, and this has only made investors more confident about waiting until their prices are met.

The factors underlying both low levels of activity and record yields center around prices. Inflation, or more precisely inflationary expectations, strongly influences any investment decision made in these times. While some relief has already been registered, further and deeper declines in the Consumer Price Index must occur before the bond market can begin to revive.

Mortgage rates, as a sub-category of long-term rates, will probably stay within 200 basis points of their present level for the immediate future. Continued high mortgage rates are likely to have a dampening influence on both the construction and real estate sales sectors. Because this will make homes even less affordable, the effective demand for housing will be somewhat reduced. As the burden imposed by inflation is shifted onto the borrower, the financial benefits of real estate as an investment are diminished. The relationship between real estate and inflation is notable because over one-third of the CPI is concerned with home prices and mortgage rates.

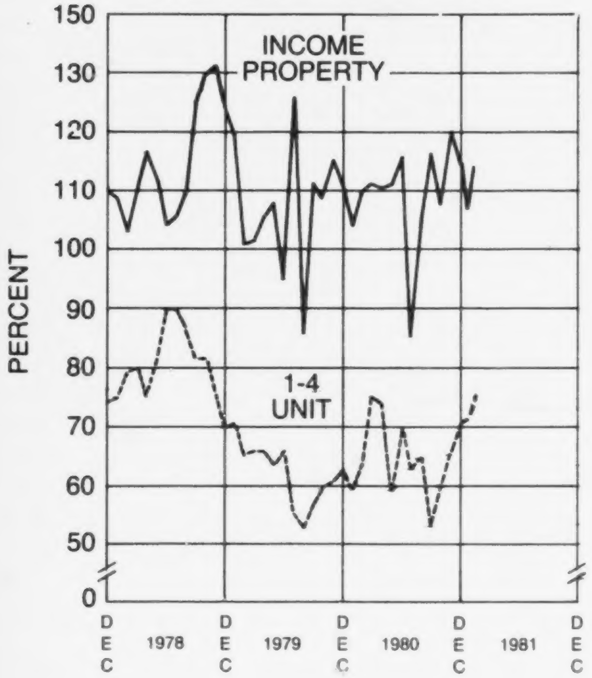
Should home prices begin to decline or even to decelerate to a great degree, another major reason to invest in housing will be affected. Many people who have purchased a property for rental purposes will have to reassess their positions if their expected increases in equity fail to materialize. In the long-range outlook, however, downward pressure on home prices is less of a problem, because demographic forces will combine with local policies to produce a rising cost curve for new construction.

The interaction between increasing homeowner equity and the general health of the housing market is multifaceted Not only is equity an important source of capital for the repeat homebuyer, but it also has an effect on the delinquency and foreclosure ratios. MBA's latest National Delinquency Survey underscores this point. In the first quarter of 1981, the percent of all loans past due rose to a record 5.31 percent on a seasonally adjusted basis. Though a geographic breakdown indicates that the difficulties facing the industrial states of the Mid-Atlantic and North Central regions are affecting the housing market, a more interesting analysis can be attempted on the basis of loan type. Conventional loans, having higher downpayment characteristics, actually ran counter to the overall trend with the percent of past-due loans declining to 3.06 percent from 3.12 percent. On the other hand, FHA and VA loans, historically having the lowest initial equity of any loan types, jumped from 6.34 percent and 5.40 percnt, respectively, to 7.02 percent and 5.83 percent.

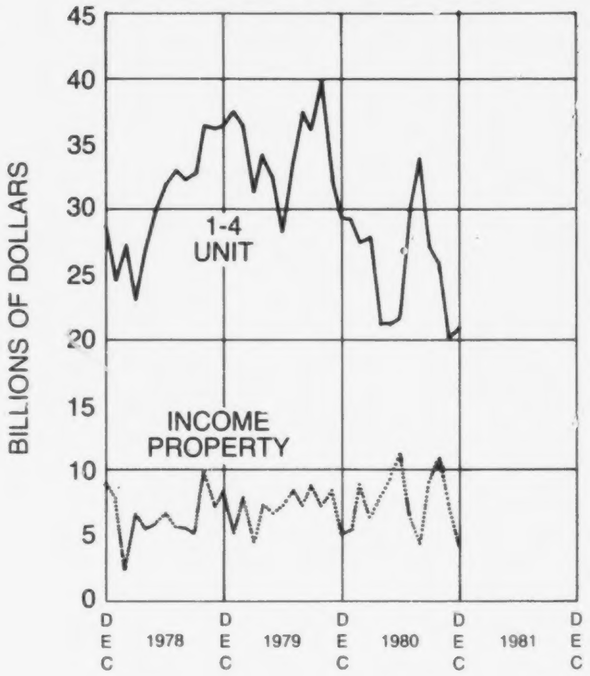
It is unlikely that foreclosure rates will become an overriding problem for the mortgage industry. Occupant homeowners have shown both the willingness and the ability to sacrifice in other areas in order to protect their investment in a home.

Joseph J. Donohue
Assistant Economist

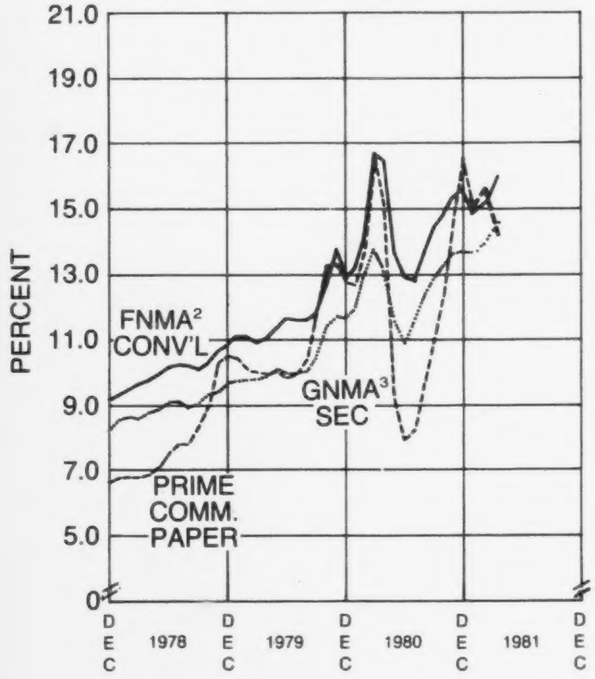
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE[1]



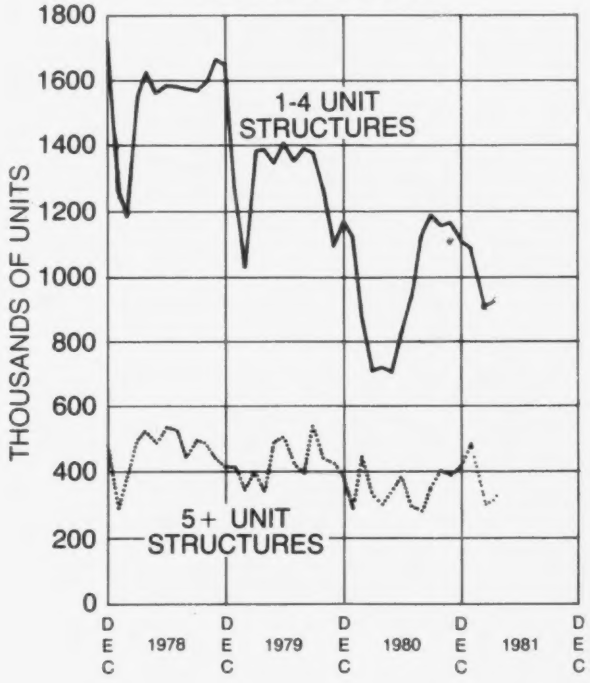
MORTGAGE BANKERS LONG-TERM MORTGAGE LOANS CLOSED[4]



SELECTED YIELDS



HOUSING STARTS[4]



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.
2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.
3. SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY.
4. SEASONALLY ADJUSTED ANNUAL RATES

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION.

MBA—ECONOMICS DEPARTMENT

MORTGAGE MARKET TRENDS—JUNE 1981

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1980												
JAN	75	52	23	1,264	882	382	73	56	17	1,419	1,219	290
FEB	76	54	22	1,142	801	341	80	55	25	1,330	887	443
MAR	82	56	26	932	627	305	85	59	26	1,041	705	336
APR	77	54	23	789	536	253	96	71	25	1,030	728	302
MAY	77	56	21	825	576	249	92	73	19	913	714	199
JUN	101	69	32	1,078	721	357	116	84	32	1,223	832	391
JUL	113	84	29	1,236	900	336	119	94	25	1,249	951	298
AUG	116	86	30	1,361	988	373	129	104	25	1,416	1,139	277
SEP	143	94	49	1,564	1,060	504	138	107	31	1,545	1,189	356
OCT	127	89	38	1,333	953	380	154	112	42	1,561	1,157	404
NOV	95	65	30	1,355	953	402	112	82	30	1,563	1,167	396
DEC	88	56	33	1,235	869	366	96	65	31	1,535	1,105	430
1981												
JAN	70	47	23	1,228	857	371	82	57	25	1,615	1,138	477
FEB	73	49	24	1,165	780	385	72	56	18	1,214	903	311
MAR	100p	69p	31p	1,128p	758p	370p	107p	79p	29p	1,284p	929p	355p
3 months												
1981	243	165	78				261	192	72			
1980	233	162	71				238	170	68			
1979	327	235	93				326	246	77			
1978	340	243	97				362	280	82			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non Res
1980				
JAN	137,295	58,439	22,224	56,632
FEB	130,053	54,463	20,664	54,926
MAR	120,768	48,797	19,628	52,343
APR	113,411	42,980	17,723	52,708
MAY	108,104	38,057	17,131	52,916
JUN	104,786	35,750	16,150	52,886
JUL	101,629	37,263	14,922	49,444
AUG	105,162	40,380	15,647	49,135
SEP	109,738	44,448	16,286	48,974
OCT	113,773	48,661	14,938	50,174
NOV	120,271	50,994	18,198	51,079
DEC	125,692	52,954	18,181	54,557
1981				
JAN	134,067	56,117	19,288	58,662
FEB	132,363	53,925	20,488	57,950
MAR	130,529p	51,657p	20,723p	58,149p

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1980				
JAN	209	43	393	9.2
FEB	220	44	381	8.7
MAR	243	43	370	8.6
APR	224	36	361	10.2
MAY	219	43	349	8.1
JUN	233	48	342	7.2
JUL	275	55	339	6.2
AUG	286	60	332	5.6
SEP	293	48	339	7.1
OCT	282	44	343	7.8
NOV	210	37	344	9.2
DEC	187	34	337	10.2
1981				
JAN	166	36	331	9.3
FEB	175	40p	324p	8.1p
MAR	223p	48p	321p	6.6p
3 months				
1981	564	124		
1980	672	130		
1979	838	214		
1978	858	195		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1980																
JAN	5	8	39	23	116	221	577	350	6	6	40	22	194	213	673	339
FEB	5	8	39	24	125	178	524	315	3	8	47	23	73	223	701	333
MAR	10	10	40	22	122	120	442	248	7	12	45	21	105	178	511	247
APR	8	12	37	20	86	116	385	202	10	15	48	23	130	156	487	257
MAY	9	13	36	19	98	122	399	206	12	15	45	21	129	122	459	203
JUN	11	15	48	27	114	142	534	288	13	21	58	24	120	179	679	245
JUL	12	20	50	32	119	208	566	343	12	20	60	27	194	193	664	278
AUG	11	19	53	33	117	213	650	381	13	21	63	32	128	224	694	370
SEP	14	26	69	35	143	242	770	409	17	30	51	30	216	288	679	362
OCT	14	26	56	31	139	247	597	350	12	34	75	32	107	310	782	362
NOV	10	17	44	25	124	225	639	367	10	23	55	24	111	305	783	364
DEC	9	13	52	22	111	209	623	292	9	13	52	22	131	259	793	352
1981																
JAN	5	6	40	18	102	190	641	295	5	8	30	18	163	329	887	281
FEB	5	7	42	19	124	174	598	269	3	6	45	18	85	189	677	263
MAR	9p	15p	51p	24p	116p	195p	542p	275p	8p	15p	63p	22p	121p	210p	690p	263p
3 months																
1981	19	28	133	61					16	29	138	58				
1980	20	26	118	69					16	26	132	66				
1979	28	44	150	104					26	39	161	97				
1978	28	58	135	121					19	55	172	116				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1980						
JAN	1,088	678	410	125	94	31
FEB	1,041	644	397	126	89	37
MAR	991	609	382	130	90	40
APR	953	588	365	135	93	42
MAY	918	570	348	120	87	33
JUN	900	566	334	131	89	42
JUL	890	572	318	125	82	43
AUG	887	576	311	128	96	32
SEP	905	601	304	116	81	35
OCT	935	620	315	120	89	31
NOV	932	632	312	114	81	33
DEC	918	657	311	129	99	30
1981						
JAN	892	570	313	88	69	18
FEB	869	551	318	93	72	22
MAR	891p	569p	322p	106p	74p	32p
3 months						
1981				287	215	72
1980				381	273	108
1979				334	265	69
1978				375	295	80

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				FMS Auction Yields on 4 mo. Commitments[6]			Aaa Utility New Issue	U.S. Gov't		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
	FHA New[3]	Conventional		Conventional				FHA/VA	Conv.			10-yr	26-wk			
		New	Existing	New	Existing											
1980																
JAN	12.60	12.80	12.80	11.87	12.10	11.875-12.250		12.930	13.188	11.96	11.73	10.80	11.851	13.04	87	116
FEB	n.a.	14.10	14.10	11.93	12.62	13.000-14.000	15.77	14.589	14.124	13.02	13.57	12.41	12.721	13.78	n.a.	61
MAR	14.63	16.05	16.05	12.62	12.87	n.a.		15.581	16.665	13.69	14.00	12.75	15.100	16.81	63	94
APR	13.45	15.55	15.55	13.03	13.57	n.a.		14.670	16.451	13.17	12.90	11.47	13.618	15.78	55	170
MAY	11.99	13.20	13.20	13.67	14.12	13.000-15.000	18.32	12.855	13.535	11.54	11.53	10.18	9.149	9.49	46	136
JUN	11.85	12.45	12.45	12.69	13.31	12.250-12.750		12.360	12.946	10.89	10.96	9.78	7.218	8.27	89	111
JUL	12.39	12.45	12.45	12.48	12.61	12.500-13.500		12.630	12.807	11.53	11.60	10.25	8.101	8.41	79	128
AUG	13.54	13.25	13.25	12.25	12.26	13.000-14.500	13.16	13.873	13.663	12.33	12.32	11.10	9.443	9.57	122	123
SEP	14.26	13.65	13.70	12.36	12.38	13.000-14.000		14.819	14.450	12.86	12.74	11.51	10.546	10.97	152	135
OCT	14.38	14.10	14.10	12.60	12.64	13.500-14.500		14.965	14.791	13.24	13.18	11.75	11.566	12.52	120	149
NOV	14.47	14.70	14.70	13.08	13.29	n.a.	15.31	15.530	15.280	13.69	13.85	12.68	13.612	15.18	62	101
DEC	14.08	15.05	15.05	13.28	13.58	n.a.		15.192	15.568	13.71	14.51	12.84	14.770	18.07	43	87
1981																
JAN	14.23	14.95	14.95	13.28	13.91	n.a.		14.870	14.923	13.65	14.12	12.57	13.883	16.58	11	108
FEB	14.79	15.10	15.10	13.54	14.13	n.a.	19.40	15.261	15.108	14.16	14.90	13.19	14.134	15.49	11	103
MAR	15.04	15.25	15.25	14.02	14.34	n.a.		15.590	15.337	14.15	14.71	13.12	12.983	13.94	33	103

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos.
1979																				
NOV	18.362	3.526	7.230	6.175	1.431	13.823	2.833	6.480	4.260	250	831	148	338	223	122	3.708	545	412	1.692	1.059
DEC	15.040	3.338	5.223	5.018	1.461	11.801	2.552	4.584	3.338	427	792	130	270	251	141	3.346	655	369	1.429	893
1980																				
JAN	12.134	2.588	4.070	4.073	1.403	8.731	2.271	3.589	2.703	168	588	82	208	204	94	2.816	236	273	1.166	1.141
FEB	11.975	2.733	4.281	3.802	1.159	8.469	2.055	3.805	2.361	248	919	454	204	148	113	2.587	224	272	1.293	798
MAR	14.187	2.632	5.487	4.509	1.559	10.372	2.085	4.955	2.899	433	517	72	224	135	86	3.298	475	308	1.475	1.040
APR	12.363	2.297	4.707	4.111	1.248	8.868	1.662	4.216	2.749	241	614	94	218	137	165	2.881	541	273	1.225	842
MAY	9.852	2.080	3.536	3.301	935	6.860	1.606	2.996	2.051	207	429	41	220	102	66	2.563	433	320	1.148	662
JUN	10.873	2.830	4.076	2.872	1.095	7.351	1.910	3.533	1.794	114	1.099	596	248	167	88	2.423	324	295	911	893
JUL	12.555	3.020	5.468	2.947	1.120	9.560	2.530	4.885	2.041	104	615	100	313	94	108	2.380	390	270	812	908
AUG	15.579	3.160	7.722	3.710	1.167	12.675	2.780	7.089	2.732	74	626	60	276	162	128	2.458	320	357	816	965
SEP	17.767	3.360	8.597	4.942	868	14.026	2.490	7.818	3.635	83	1.007	440	364	116	87	2.734	430	415	1.191	698
OCT	17.746	3.030	8.423	5.151	1.142	13.806	2.350	7.616	3.786	72	926	240	327	183	176	2.996	440	480	1.182	894
NOV	13.249	2.280	5.913	3.923	1.133	9.903	1.690	5.316	2.847	50	670	190	226	142	112	2.676	400	371	934	971
DEC	14.623	3.040	6.035	4.106	1.442	9.911	2.050	5.277	2.563	21	1.190	480	272	217	201	3.522	510	486	1.306	1.220
1981																				
JAN	10.654	2.860	3.831	3.039	924	6.535	1.480	3.392	1.633	30	1.569	1.130	151	205	83	2 550	250	288	1.201	811

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos
1979										
OCT	83.042	14.258	27.084	11.493	30.207	16.943	4.014	7.992	2.916	2.021
NOV	79.324	14.824	23.714	11.315	29.471	12.023	3.415	4.741	2.407	1.460
DEC	73.350	13.473	21.467	10.504	27.906	8.533	2.608	3.248	1.892	785
1980										
JAN	67.753	11.983	20.502	8.929	26.339	8.579	2.984	3.510	1.545	540
FEB	68.818	12.333	21.351	9.717	25.417	9.400	2.046	5.017	1.637	700
MAR	66.122	11.974	20.424	9.215	24.509	9.924	2.372	4.782	1.850	920
APR	60.999	10.500	18.597	8.286	23.616	7.126	1.964	3.147	1.276	739
MAY	58.833	10.336	17.762	8.011	22.724	7.051	2.958	2.802	901	390
JUN	58.058	9.960	18.848	7.651	21.599	9.046	2.850	4.580	1.250	366
JUL	63.525	13.750	21.310	7.769	20.696	12.568	3.050	7.128	1.626	764
AUG	65.653	12.640	23.876	9.032	20.105	14.951	2.680	9.510	2.076	685
SEP	66.681	12.800	24.476	9.230	20.175	15.381	2.500	8.858	2.676	1.347
OCT	66.925	14.670	23.641	8.899	19.715	13.557	3.230	7.305	2.142	880
NOV	65.262	14.770	22.790	8.629	19.063	10.048	2.540	5.146	1.608	754
DEC	63.812	16.430	20.857	8.582	17.943	10.292	3.540	4.460	1.675	617
1981										
JAN	60.997	16.210	19.818	7.922	17.047	7.914	3.270	3.174	1.133	337

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1979											
OCT	155	98	57	104	4.580	29	1.092	22	1.100	53	2.388
NOV	116	76	40	102	4.493	27	1.004	29	1.391	46	2.098
DEC	79	50	29	91	4.117	20	769	31	1.531	40	1.817
1980											
JAN	90	66	24	100	4.534	31	1.142	39	1.956	30	1.436
FEB	91	63	28	71	3.153	21	753	26	1.301	24	1.099
MAR	101	61	40	74	3.371	18	696	27	1.329	29	1.346
APR	90	58	32	76	3.473	20	746	23	1.149	33	1.578
MAY	101	76	25	56	2.608	13	483	17	848	26	1.277
JUN	105	78	27	50	2.273	13	502	15	741	22	1.030
JUL	138	99	39	63	2.904	20	823	16	817	27	1.264
AUG	139	89	50	70	3.389	23	958	17	944	30	1.487
SEP	136	76	60	94	4.592	23	945	30	1.624	41	2.023
OCT	115	59	56	95	4.580	24	990	21	1.133	50	2.457
NOV	90	48	42	79	3.824	18	725	21	1.135	40	1.964
DEC	95	50	45	82	3.995	20	336	18	954	44	2.205
1981											
JAN	n.a	n.a	24	n.a	n.a.	n.a	n.a	18	917	30	1.436

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA					FHLMC			GNMA	
	4-Month Commitments				12 Month Convert Standby	Comm.	Purc.	Sold	Pass-Through Securities	
	FHA/VA Bid	FHA/VA Accept	Conventional Bid	Conventional Accept					Applications	Issued
1980										
JAN	516	232	443	247	26	296	279	180	4.265	2.611
FEB	1.169	564	412	148	225	197	248	207	2.178	1.354
MAR	1.267	426	919	240	242	186	193	106	5.124	1.125
APR	494	199	135	66	85	189	231	200	4.509	1.778
MAY	609	214	280	109	62	491	176	391	5.281	1.127
JUN	603	267	170	76	92	577	225	230	6.627	1.320
JUL	1.255	506	229	141	72	702	440	288	5.322	1.874
AUG	1.347	775	430	219	112	476	495	320	4.936	2.215
SEP	1.268	741	348	210	102	218	521	275	6.850	1.807
OCT	584	344	108	64	100	221	398	193	7.757	2.255
NOV	331	176	82	69	214	180	231	88	2.277	1.613
DEC	309	137	85	54	180	126	285	48	3.575	1.569
1981										
JAN	275	122	32	30	78	203	152	168	3.656	1.300
FEB	199	115	118	79	41	294	174	94	2.231	1.306
MAR	197	139	149	98	67	768	148	128	n.a.	n.a.

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1980									
JAN	231	84	42	105	27	3.554	1.196	1.079	1.279
FEB	207	80	49	78	31	4.512	1.160	1.652	1.700
MAR	259	91	46	121	24	4.272	1.201	1.585	1.486
APR	191	71	40	81	59	3.484	1.104	1.042	1.338
MAY	209	88	47	74	72	4.254	965	1.789	1.500
JUN	243	89	47	107	55	4.209	1.016	1.604	1.589
JUL	376	100	61	215	73	3.954	1.093	1.322	1.539
AUG	310	130	70	110	70	4.390	1.250	1.240	1.830
SEP	310	139	73	98	78	4.537	1.382	1.814	1.341
OCT	281	114	55	112	420	5.140	1.625	1.900	1.615
NOV	286	87	115	84	121	6.202	1.106	2.568	2.528
DEC	411	220	71	120	94	6.148	1.102	2.502	2.544
1981									
JAN	355	187	58	111	220	5.854	1.481	2.886	1.487
FEB	351	211	46	94	140	6.576	1.471	2.723	2.382
MAR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.-Not available; p-Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields.

[4] Benchmark rates, Citicorp Real Estate, Inc.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

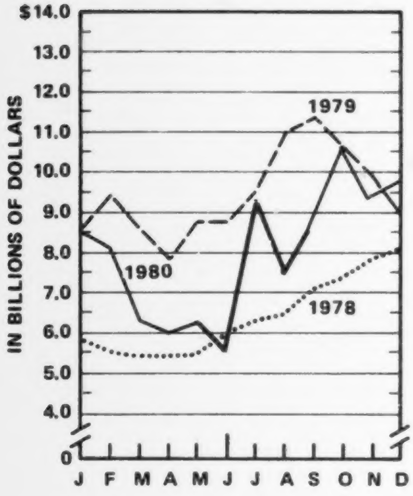
[8] Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate, Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

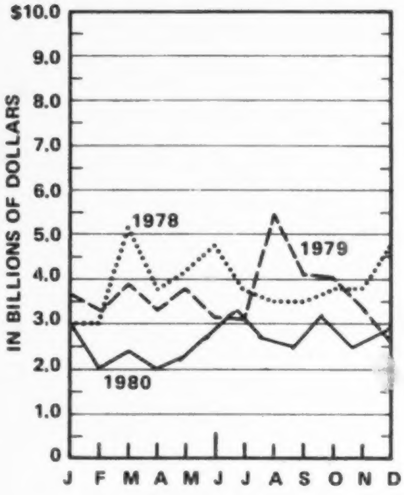
MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGES

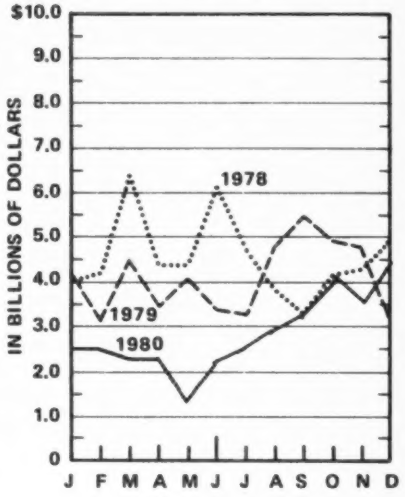
Inventory: Own Account



Commitments Issued

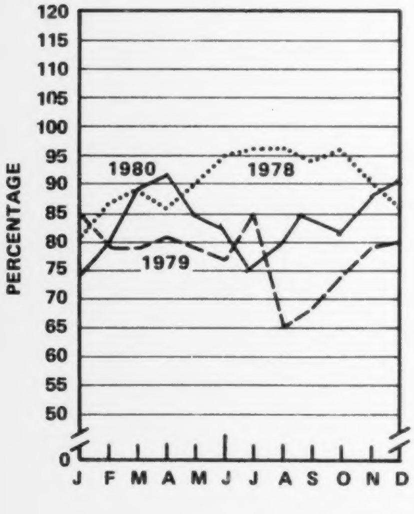


Commitments Received

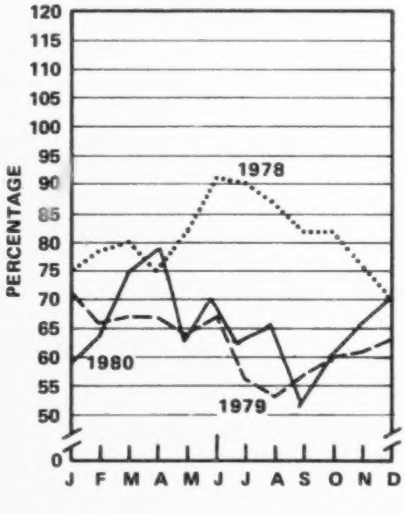


COVERAGE[1]

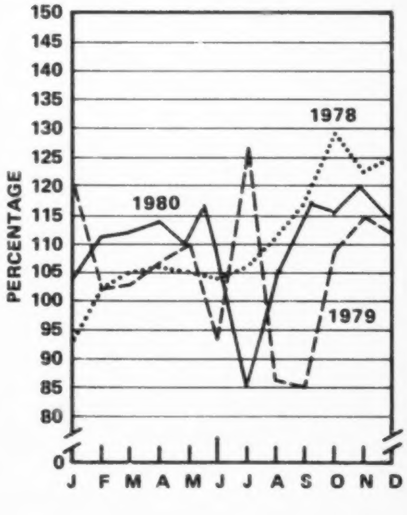
All Loans



1-To 4-Unit Loans



Income Property Loans



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[1] Percent coverage is outstanding long-term commitments received from investors, divided by the sum of outstanding end of month inventory and outstanding long-term commitments issued to borrowers, multiplied by 100.

Note: Data are estimates for all mortgage banking members of MBA. Estimates for the **699** mortgage banking members are based on a sample of firms representing **25** percent of the total long-term originations in the industry. The current month's data are preliminary and will be revised the following month. Once each year when new annual benchmark data for the industry becomes available, the monthly data are again revised to match the annual industry totals published in *Mortgage Banking: Loans Closed and Servicing Volume*. The latest benchmark revisions were made effective with the December **1978** benchmarks.

Source: MBA Economics Department.

MORTGAGE BANKING ACTIVITY
(All dollar amounts are in millions)

LOANS CLOSED

Year and Month	LONG-TERM MORTGAGE LOANS													CONSTRUCTION LOANS
	Seasonally Adjusted				Not Seasonally Adjusted									
						1-4 Units				5 Units or More				
	Total[1]	1-4 Units	5 Units or More	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total
1980														
FEB	$2,900	$2,300	$580	$170	$2,740	$2,060	$740	$720	$600	$460	$350	$110	$220	$490
MAR	3,060	2,320	60	470	2,630	2,090	750	710	630	70	40	30	470	460
APR	2,340	1,770	60	610	2,300	1,660	530	470	660	100	20	80	540	510
MAY	2,450	1,740	70	680	2,080	1,610	580	470	560	40	0	40	430	690
JUN	2,620	1,820	400	520	2,760	1,970	950	660	360	420	110	310	370	540
JUL	2,950	2,470	80	480	3,020	2,530	1,170	910	450	100	90	10	390	1,960
AUG	3,030	2,830	60	310	3,160	2,780	1,180	1,060	540	60	60	0	320	1,150
SEP	2,950	2,270	370	390	3,280	2,460	1,000	880	580	440	440	0	380	380
OCT	2,760	2,160	470	460	3,030	2,350	880	780	690	240	170	70	440	500
NOV	2,300	1,680	190	440	2,280	1,690	580	550	560	190	160	30	400	300
DEC	2,620	1,900	380	250	3,040	2,050	750	660	640	480	410	70	510	780
1981														
JAN	3,130	1,590	1,990	340	2,860	1,480	540	460	480	1,130	750	380	250	290
FEB p	2,040	1,620	110	290	1,920	1,450	590	460	400	90	50	40	380	320
Year-to-date														
1980	$32,800	$25,700	$2,870	$5,110	$32,910	$25,520	$9,820	$8,580	$7,120	$2,680	$1,850	$830	$4,710	$8,320
1979	41,590	34,190	2,520	4,600	41,410	34,160	12,090	11,910	10,160	2,760	1,350	1,410	4,490	11,210
1978	37,300	30,920	2,560	3,980	37,770	31,150	10,040	11,000	10,110	2,450	920	1,530	4,170	7,520

OUTSTANDING END OF MONTH INVENTORY

COVERAGE[2]

Year and Month	LONG TERM MORTGAGE LOANS									CONSTRUCTION LOANS				COVERAGE[2]		
		1-4 Units				5 Units or More										
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	1-4 Units	5 Units or More	Non-Res.
1980																
FEB	$8,080	$6,440	$1,950	$1,570	$2,920	$550	$30	$520	$1,090	$2,360	$860	$560	$940	64%	136%	103%
MAR	6,310	4,720	1,220	1,100	2,400	590	40	550	1,000	2,430	930	580	920	75	137	104
APR	5,800	4,120	1,020	870	2,230	680	10	670	1,000	2,310	800	570	940	74	137	103
MAY	5,760	4,050	1,010	830	2,210	780	10	770	930	2,190	780	580	830	59	134	105
JUN	5,690	3,840	1,240	870	1,730	960	20	940	890	2,460	810	590	1,060	70	141	103
JUL	9,260	4,900	1,550	1,170	2,180	2,430	1,500	930	1,930	2,480	760	660	1,060	63	121	85
AUG	7,560	5,070	1,710	1,370	1,990	940	30	910	1,550	2,490	900	610	980	65	123	96
SEP	9,230	6,910	2,200	2,040	2,670	940	30	910	1,380	2,580	880	650	1,050	53	113	120
OCT	10,530	6,710	2,030	1,730	2,950	2,390	1,510	880	1,430	2,520	810	690	1,020	60	116	116
NOV	9,480	5,810	1,620	1,350	2,840	2,340	1,550	790	1,330	2,960	820	860	1,280	66	113	129
DEC	11,200	7,060	1,920	1,560	3,580	2,640	1,540	1,100	1,500	3,190	840	940	1,410	69	109	118
1981																
JAN	9,670	5,690	1,320	990	2,380	2,720	1,400	1,320	1,260	3,060	1,050	800	1,210	73	112	105
FEB p	7,640	5,130	1,420	1,060	2,610	1,320	20	1,300	1,190	3,210	1,020	730	1,460	76	125	106

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH							
	To Borrowers				From Investors				To Borrowers				From Investors			
	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.
1980																
FEB	$2,050	$1,820	$60	$170	$2,490	$2,210	$80	$200	$7,380	$3,780	$740	$2,860	$12,340	$6,530	$1,750	$4,060
MAR	2,380	2,040	90	250	2,260	1,830	170	260	7,120	3,680	710	2,730	11,980	6,330	1,780	3,870
APR	1,970	1,680	40	250	2,180	1,500	170	510	6,080	3,170	520	2,390	10,510	5,370	1,650	3,490
MAY	2,960	2,730	90	140	1,550	1,290	100	160	7,120	3,820	570	2,730	10,340	4,680	1,810	3,850
JUN	2,840	2,480	160	200	2,280	1,430	540	310	7,670	4,320	830	2,520	12,850	6,810	2,530	3,510
JUL	3,050	2,850	70	130	2,540	2,190	150	200	9,190	5,000	1,440	2,750	13,750	6,520	3,250	3,980
AUG	2,680	2,090	190	400	2,990	2,240	110	640	8,200	4,830	950	2,420	12,640	6,480	2,330	3,830
SEP	2,700	1,970	200	530	3,180	2,230	220	730	7,620	4,470	880	2,270	12,530	6,080	2,050	4,400
OCT	3,230	2,320	70	840	4,020	2,100	310	1,610	7,330	4,060	780	2,490	14,670	6,440	3,680	4,550
NOV	2,540	1,460	680	400	3,790	2,190	700	900	7,230	3,920	1,160	2,150	14,770	6,380	3,960	4,430
DEC	3,540	1,840	810	890	4,840	1,750	,140	1,950	7,620	4,010	1,220	2,390	16,430	7,630	4,210	4,590
1981																
JAN	3,270	2,750	250	300	2,450	1,920	270	260	8,510	4,210	1,570	2,730	16,210	7,230	4,790	4,190
FEB p	3,100	2,640	170	290	4,490	3,870	300	320	9,140	5,050	1,600	2,490	15,250	7,690	3,660	3,900
Year-to-date																
1980	$32,930	$25,970	$2,560	$4,400	$34,620	$22,910	$4,020	$7,690								
1979	44,430	33,110	2,220	9,100	49,350	35,280	3,190	10,880								
1978	46,920	32,930	1,690	12,300	54,830	37,690	2,710	14,430								

[1] Total is seasonally adjusted separately from components. Total, therefore, may not equal the sum of the parts.

[2] Percent coverage is outstanding long term commitments received from investors, divided by the sum of outstanding end of month inventory and outstanding long term commitments issued to borrowers, multiplied by 100.

Note: All series labeled "non residential" are also inclusive of farm data.

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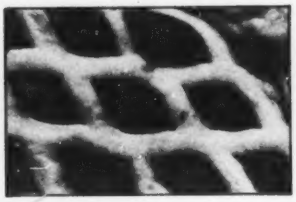
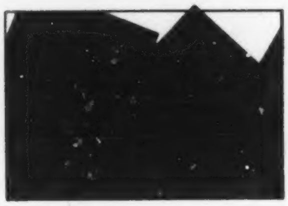
Page 14



SAMs: Recognizing
Economic Reality
Page 30



The Mortgage-
in-Law
Page 43

Advance Mortgage Official Describes Experience with SAMs 12
Robert J. Mylod

View from a Sister Industry: S&L Economist Looks Ahead 14
Dale P. Riordan

Choosing a Real Estate Investment Manager 16
James A. Kujaca

Increasing Capital in the 1980s 21
James H. Hammond, Jr.

Indexed Mortgage Financing: Questions and Answers 24
McKim N. Barnes and Hubert Scheffy, Jr.

SAMs: Recognizing Economic Reality 30
Fred H. Reichelt

The 'Mortgage-in-Law': Imaginative Financing 43
Alvin Preiss

Tandem: Something of Value 45
Ronald P. Laurent

Amfac Mortgage Saves Time and Money with New Microfilm System 48
Saralie B. Northam

Departments

Starts 5
Association 5
Industry 7
People 50
Mortgage Market Trends 53
Books 63
Classified Advertisements 64
Advertisers Index 65

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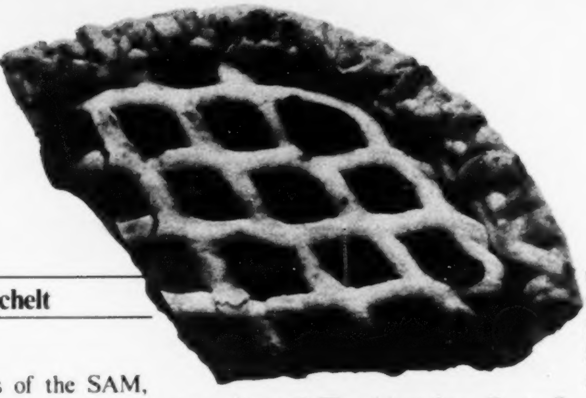
SAMs: RECOGNIZING ECONOMIC REALITY

". . . shelter currently consumes
38 percent of a
family's income . . ."



Fred H. Reichelt

The precise origins of the SAM, the Shared Appreciation Mortgage—also known as the equity kicker mortgage—are lost in the mists of time. But it is not essential that we know the name of the mortgagor and mortgagee in the very first SAM transaction. It is easy enough to imagine the circumstances that led up to the SAM's development.

Probably, it involved a borrower who couldn't afford the rates a lender required for a loan. Instead of giving up, the borrower, who knew he had something to offer, prevailed upon the lender by offering him a piece of the action. The lender, who basically wanted to make the loan because he knew it was a good deal, but just couldn't make the rate low enough, sharpened his pencil, crunched the numbers, and said, "For x percent of the appreciation, I can loan you what you want, at a rate you can live with." Everybody was happy, especially the lawyers, who had a field day with the documentation.

The overview

A home purchase is usually the biggest financial transaction in most people's lives. The magnitude of its significance can be seen if one notes that shelter currently consumes 38 percent of a family's income, according to a study by the University of Michigan. Obviously, this causes most people to cut back on other personal expenditures, demanding that they make a very serious commitment when purchasing a home.

The scope of this commitment transcends more than financial considerations; it also calls for the homeowner to mentally dedicate the next 30 years of his or her life to paying off a mortgage. That is not a trivial move; it represents 40 percent of the average person's life and 70 percent of their working life. Even though the average mortgage has a life of only seven years, it is entered into with the realization that it is, potentially, a longer commitment.

Why do Americans make such a commitment? The "American Dream" figures into the answer. A home certainly is a solid indication that an individual has reached the middle class of American society. Although many of us take this fact for granted, it still is the basic reason people want a home.

Built into the "American Dream" is the presumption that once a person owns a home, his or her quality of life will improve dramatically. There is a folk belief that children will have a better life due to being raised in a home, with grass and trees, rather than an apartment. And finally, some part of the "American Dream" revolves around the home being the proverbial castle, refuge from turmoil. It's a place that a person can call his or her own.

Other reasons for buying a home, in addition to the emotional, revolve around basic economics. Government, as we all know, has long promoted the idea of homeownership. The first instance of this was the original Homestead Act in which the United States government gave away land to promote settlement, farming and ultimately, homeownership. Today the greatest thrust of government promotion of homeownership is provided by tax incentives. It is currently estimated that two-thirds of all the long form 1040s that are filed are filed simply because of the deductions for interest and taxes on the taxpayer's home. This simple tax benefit cuts the average home payment from 38 percent of gross income to 25 percent or less, certainly a significant reduction.

Appealing as tax and psychological incentives for homeownership are, the demand for homeownership would not be as great as it is today if those were the only incentives. The *real* incentive for homeownership is that a home represents a way for people to build equity.

Equity builder

For most people today, homeownership is the principal form of savings and estate buildup. It is estimated that $1.9 trillion of equity currently exists in homeownership throughout the United States, certainly a significant amount by any standard. To deny its existence would be foolhardy, as would be denying the effect of inflation on increasing this number.

Inflation has been one of the primary growth forces in the $1.9 trillion equity. With most mortgages still being written with 30 year amortization schedules and an average mortgage life of 7 years, during which time only about 5 percent of the principal is repaid, it is obvious that an individual has only a remote chance of building substantial equity in his or her home by monthly repayment. The irony emphasizes the uniqueness of a home as an investment. Homeownership is one of the few forms of investment in America today that is first, helped by inflation, second, readily marketable, third, can be purchased with 20:1 leverage and fourth, has maintained an almost yearly increase in value for the last quarter century. Homeownership, truly, is a hedge against inflation.

As stated earlier, the federal government, through tax laws, has made homeownership a good tax shelter for the average person by making the interest portion of payments made to acquire a home tax deductible. There is an additional bonus. The profit realized on the sale of the home is nontaxable if certain minimal standards are adhered to. And in most cases taxes may be deferred for an indefinite period. Even without a sale, the as yet unrealized profit can be withdrawn by borrowing against the equity for such worthy causes as college educations, business investments, and retirements.

Homeownership—a private club?

With such strong reasons for homeownership, why aren't more people homeowners? Unfortunately, homeownership, especially during the past few years of unusually high interest rates, has become, in effect, a private club with an extremely high initiation fee and very high dues (even if partially tax deductible).

The burden of this high initiation fee, the 20 percent-30 percent down payment, has been taken care of over the years, first by the FHA and then by the private mortgage insurance companies. Through their programs, down payment requirements have been lessened significantly. Imagine, if you will, what the market would be like with the old requirement of 30 percent-40 percent down to buy a home. Accumulating such a down payment for the average priced American home during 1980, when the median cost of a new home was at $64,600, the median cost of a previously owned home stood at $63,000, and the inflation rate hovered at 12 percent-14 percent, was virtually impossible for most people.

Only lately has the effect of high monthly payments received the attention it merits. Because alternative mortgage instruments partly address this problem, they have proliferated over the past five years. But in terms of adequately handling the problem, the RRMs and roll-overs have had only a minimal effect. Housing is still out of reach for most people because the mortgages are made at rates that are only about 50 basis points below the going fixed payment mortgage rate. This bears out the contention that RRMs and roll-overs are basically for the protection of the lender, helping to equilibrate the asset side of the balance sheet with the liability side. In other words, RRMs and roll-overs really don't help more people afford homes.

GPMs and FLIP mortgages have a reasonable effect on lowering the monthly cost of homeownership in the early years. But, with each the cost rises rapidly over the first few years of the mortgages. Eventually both the GPM and FLIP will cost the homeowner more out of pocket than a straight mortgage would.

Fortunately, there is an answer among the AMIs.

The most useful alternative mortgage instrument to lower the monthly cost of homeownership is the SAM. SAMs immediately lower that monthly cost by approximately one-third and keep it reduced for the entire term of the note.

As Table 1 indicates, such a reduction would have a profound impact on the affordability of housing.

Table 1 shows that the number of people who can afford a home at 15 percent with a fixed rate mortgage is virtually miniscule in relation to the demand. The contrast to the far greater number who can qualify at 10 percent is marked.

SAM background

SAMs came into their own during the economic chaos and credit crunch of 1969-70 when they were increasingly used in commercial lending as interest rates soared. While no certified statistics exist regarding the extent to which SAMs, or some form of equity kicker, are being used in commercial lending, many industry experts say that they see their use as a growing trend. They feel

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that such instruments will continue to be popular for the foreseeable future. "It's the only way to make the numbers work," they say.

So far, I have been able to identify only one savings and loan, one mortgage banker, and one builder who have made a significant number of SAMs in the course of generating loans. But this limited activity has not been for a lack of demand for SAMs. The demand, originators report, is substantial. It results from two factors: (1) interest rates have reached levels that are beyond the reach of most buyers, (2) both capital appreciation and equity buildup have become generally accepted features of homeownership. The spread of SAMs from commercial to residential real estate was a natural evolutionary process.

What is a SAM?

The shared appreciation mortgage on which this article is based is one in which approximately one-third of the interest that would be charged on a market interest rate mortgage is waived by amendment to the mortgage note. The note is written at an interest rate approximately two-thirds the current market rate. In return for the interest rate break, the borrower agrees contractually to return to the lender between 40 percent and 50 percent of the property's appreciation, when the note matures.

Most SAMs are written with 10 year notes and 30 year terms. Lenders usually prefer longer terms because the first two or three years of appreciation are consumed by selling expenses, should it be necessary to liquidate the property prior to termination of the note. However, it should be noted that because the average life of a mortgage is approximately seven years, you can anticipate that only about half of SAMs originated will run to their full terms.

At the term of the note, or on a prior sale, the borrower and lender develop an accounting tally in which the cost of the home and any applicable sales expenses are subtracted from the selling price. The remaining profit or appreciation is shared, based on the previously negotiated split.

In a typical example, the buyer of an $80,000 home on which a lender lent $72,000 might charge the borrower 10 percent interest, with 30 year amortization, when the current market rate is 14½ percent. One immediate benefit to the lender is that with the 10 percent interest rate he can qualify more borrowers. If we assume an appreciation rate on the property and an inflation rate of 7.25 percent over the next 10 years, at the termination of the contract the property will be worth $160,000. Subtracting a little over 8 percent from this amount for selling expenses or approximately $13,000, we end up with a net selling price of $147,000, that after the initial purchase of $80,000 leaves a profit of $67,000. If we assume that the original contract called for sharing appreciation on a 50-50 basis, the lender would end up with an additional $33,500 of income at the end of the 10 years. These assumptions and computations are recapped on Tables 2 through 4. This equates to an incremental interest rate on the original $72,000 mortgage of approximately 4.5 percent, for a total yield of 14.5 percent.

In this example, with a conservative inflation rate and with an assumed market origination rate of 14.5 percent, the SAM transaction is less profitable than one using a fixed rate mortgage at the market yield. However, as has been noted, many lenders have discovered that borrowers who currently qualify at such rates are few and far between. This is frustrating not only to the borrowers, but to lenders who are attempting to serve their community.

While the above transaction might not appear to be advantageous to make today, consider the following: If the inflation rate declines, then origination

Table 1

Affordability of Housing
Based on a 30 year term, $60,000 mortgage

Interest Rate	Payment	Expenses[1]	Annual Income Needed to Afford[2]	Number of Families Who Can Afford	Percent of Families Who Can Afford
9	$483	$215	$33,504	11,786,000	20.6%
10	527	215	35,626	10,328,000	18.4%
11	572	215	37,776	9,222,000	16.2%
12	617	215	39,936	7,896,000	13.6%
13	664	215	42,292	6,523,000	11.4%
14	711	215	44,448	5,207,000	9.3%
15	738	215	46,704	3,833,000	6.7%
16	807	215	49,056	2,402,000	4.2%

[1] Insurance, taxes, utilities
[2] Assumes ¼ of income goes total housing payment
SOURCE: National Association of Home Builders Economics Division

Table 2

Assumptions

Sale price of home	$ 80,000
Amount financed	72,000
Contract interest rate	10%
Amortization period of note	30 years
Level monthly payments	$ 631.85
Appreciation rate	7.25%
Appreciate value after 10 years	$160,000
Appreciation split	50–50
Selling expenses as a percent of proceeds	8%
Loan progress after ten years, 30 year mortgage, 10% rate	90.938%

Table 3

Seller's settlement statement after ten years

Sale proceeds	$160,000.00
Expenses of sale	(13,000.00)
Net sales proceeds	147,000.00
Amount due mortgagee ($72,000 × 90.938%)	(65,475.38)
Mortgagee's profit participation — (See Table 4)	(33,500.00)
Owner's net settlement	$48,024.62

rates will also decline. Therefore, it is reasonable to project a profitable transaction for the investor based on the cost of funds declining as rates go down. Further, I believe, based upon demand factors, that housing will continue to appreciate—not just inflate—independent of rate changes—at a pace that will add substantially to the SAM's yield.

Conversely, if rates continue to climb or, at best, remain high, that will occur in conjunction with a persistent inflationary spiral that would keep housing prices surging ahead. This, too, makes the transaction profitable.

SAMs have been slow to develop

SAMs have only recently become part of the alternative mortgage instruments vocabulary and have been relatively slow to become part of residential mortgage lending. The reason for this revolves around (1) practical considerations involved in the development of any new mortgage instrument, and (2) basic reluctance on the part of lenders to embrace a way of doing business that runs counter to their time-tested philosophy. Let's examine this reluctance . . .

Probably the most common lender argument against SAMs is the general feeling that SAMs build inflation into the lending process. Some feel that by designing a mortgage instrument in which appreciation (inflation?) becomes an integral part of the return to the investor, they are not only recognizing inflation but, in some way, condoning it. The real question here is whether an instrument based on an economic reality of the last 20 years, i.e. inflation, should be kept off the market simply because we do not like that reality.

The second most frequently heard philosophical argument against SAMs is that lending should be kept conservative, that the very basis of trust in the lending institutions lies in the fact that they are the most conservative of our financial institutions. Some people feel that lenders are supposed to protect not only the assets that they have borrowed from the general public and government agencies, but also the assets of the borrower who, in most cases, is relatively uninformed about economic transactions—even one as significant as the purchase of a home.

Lenders who subscribe to this point of view will tell you that SAMs are speculative on both the borrower's and the lender's part. They say that SAMs subject the earnings of the institution to radical variation based on the rate of inflation. It is important to note that with a lower inflation rate than today's the mortgage interest rate would also eventually drop to less than that currently being sought by the savings institutions, i.e., closer to the SAM rate. Because interest rates currently float somewhere between 150 and 250 basis points over the expected inflation rate, the same set of circumstances that would cut down on the overall return to the institution due to a lower interest rate, would also give rise to a lower cost of funds making even the preferred interest rate of a SAM profitable to the institution.

Table 4

Computation of profit on sale

Selling price	$160,000
Expenses of sale	(13,000)
Net sales proceeds	147,000
Basis	80,000
Profits on sale	$ 67,000
Profit sharing—	
Mortgagor	$ 33,500
Mortgagee (to Table 3)	$ 33,500

Table 5

Simple interest computation of yield on SAM

Appreciation received by mortgagee (from Table 4)	$ 33,500
Appreciation per year, on a *pro rata* basis over the life of the SAM	$3,350
Simple interest return on mortgagee's investment of $72,000	4.5%
Yield on 10% coupon mortgage	10.0%
Total simple interest yield	14.5%

Table 6

Computation of lender's yield considering the time value of money

	Amount	Period	Number of Periods
Disburse mortgage proceeds	($72,000.00)*	0	1
Receive level monthly payments for ten years	631.85	1-119	119
Receive proceeds of sale/refinance			
Remaining mortgage balance	64,475.38	120	1
Receive lender's share of appreciation	33,500.00	120	1
Last level monthly payment	631.85	120	1

* Parentheses indicate disbursement by lender

Yield (internal rate of return) = 12.4%

Another argument against SAMs is that SAMs encourage borrowers to buy more house than they otherwise could afford, because the monthly payment on a SAM will only absorb two-thirds of the income that a conventional mortgage would. This point of view presumes that the borrower would buy 50 percent more house using a SAM than with another AMI. This argument evades the real issue today: it is not a matter of buying more house, but a matter of qualifying borrowers for a minimal house. This minimal qualification is what a SAM permits.

A dubious philosophical argument heard against SAMs is that creating SAMs destroys the basic strength of our economic system. Homeownership is seen as the king-pin in this strength. As stated previously it has been estimated that there is approximately $1.9 trillion of home equity in the hands of Americans today. I maintain that the possibility of SAMs proliferating won't destroy any significant portion of that equity. As a matter of fact, they will strengthen it by permitting more people to own a home. A 50 percent stake in something is better than a 100 percent stake in nothing.

A final argument directed against SAMs is that because they artificially lower interest rates on home mortgages they frustrate the Federal Reserve's policies designed to regulate our economy through tightening the money supply and boosting interest rates. This argument indicates a misunderstanding of today's economy. For example, Verex is currently projecting total residential mortgage lending for 1981 at approximately $180 billion. If one quarter of all mortgages were SAMs they would represent about $45 billion of this amount. This figure, however, must be compared to the other 1980 borrowings: about $330 billion by the federal government, $47.5 billion by state and local governments, $118 billion by non-financial corporations, and $304.4 billion in other forms of installment debt. These ratios are expected to continue throughout 1981. These figures show that, regardless of the popularity of SAMs, they will have little or no effect on the federal policies toward interest rates.

Practical considerations

There are a number of practical problems that have to be worked out before SAMs become commonplace. At this writing, there is no standardized documentation for SAMs. Neither the appreciation split nor the reduction in SAM interest rate versus the market rate is uniform. This lack of standardization, of course, carries over to the secondary market.

Essential to the success of an instrument in the secondary market is that the product to be marketed will be of uniform quality, known to the buyer. Although Verex is assisting a number of lenders in selling SAMs, such transactions require an extraordinarily long and involved negotiating process. It is much too protracted a process to appeal to the normal secondary seller who relies on steady, frequent secondary deals for the financing of his organization. One of the most basic problems in selling SAMs in the secondary market is that the appreciation is an unknown until the end of the term or at the time of the property's sale. This makes it difficult to know your position in the market at any particular moment.

A dramatic practical problem presented by SAMs is the negative cash flow they may create as a result of the possible negative spread between the cost of funds and the preferential rate at which a SAM may be offered. For example, at the time this article is being written, the rate for a fixed rate mortgage, 30 year term, is between 14 percent and 14½ percent, which would result in a SAM interest rate of approximately 9¾ percent to 10 percent. However, most thrift institutions are experiencing a cost of funds of between 10⅛ percent and 10⅜ percent. This means that in the short term, SAM mortgages will not pay out enough to even cover the current cost of funds from which they are created, let alone the incremental cost of funds which is, today, in the 16 percent to 17 percent area. This is a practical consideration that also impinges on the philosophical approach of the thrifts' management of their business.

Another important unresolved question surrounding SAMs concerns the tax treatment of the appreciation payout. Is it interest income or is it a cap-

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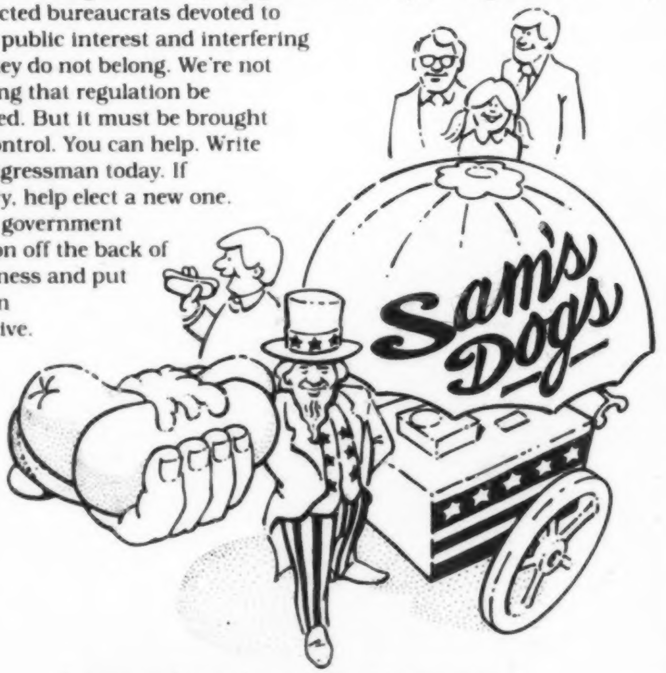

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ital gain? The IRS has yet to tell us.

How about home improvements?
The matter of how to treat home improvements made during the period of time in which a SAM is in place must be addressed. This is important because the borrower will be expected to pay the entire cost of the home improvement. It would not be fair to ignore these improvements when determining the profit on the sale of the home. On the other hand, it would also not be fair to say that the entire cost of any and all improvements will add, dollar for dollar, to the value of a home. Therefore, each improvement must be judged on an individual basis. A determination must be made as to the value added by each improvement before it is made, so that such amounts can be taken into consideration in the determination of the true profit of the sale of the home.

At the termination of the SAM agreement borrowers still remaining in their homes will probably not be amenable to the sale of the home to permit the realization of the appreciation. Therefore, two problems arise. The first is determining value without putting the home on the market. This may be accomplished through appraisal. The second issue is refinancing the home for borrowers who will be unable to buy out the lender's equity interest. It should also be recognized that this refinancing may place some strains on the borrower's debt load if his income has not kept pace with inflation over the 10 year period of time. However, through studies VEREX has commissioned, it appears that on contracts of more than 5 years, the borrower's ability to meet projected higher interest rates will not be a critical factor.

Economic essence
The transaction in which the SAM is issued offers an important economic message. Through this transaction the lender has learned what the American public has known for many years, namely, that under current tax and economic conditions, homeownership is an economically viable transaction, and that part, if not most, of the benefit derived from homeownership is the increase in home equity resulting from inflation. Just as inflation in many cases prohibits prospective buyers from buying their homes, when harnessed correctly and understood for its economic effect, inflation can be a strong though unwanted ally in assisting the American public to buy homes. This works not only during the low points in the interest cycle, but also during the high interest rate periods, by providing lenders with an economically viable alternative mortgage instrument in the form of a shared appreciation mortgage.

Ultimately, a shared appreciation mortgage achieves nothing more than what lenders have been trying to promote for years—a partnership between the lender and the borrower in which they have a common purpose. First, they determine, together, whether the borrower can afford the home; second, they share an interest in the fair pricing of the home; third, they are both interested in maintaining the neighborhood in which the property is located as well as the home itself. The SAM creates a true partnership between lenders and borrowers. ☐

The author is executive vice president of Verex Assurance, Inc., Madison, Wisconsin. He joined the firm in 1972 after holding financial positions in management consulting, actuarial service, and auditing with Peat, Marwick, Mitchell & Co. He is a Certified Public Accountant.

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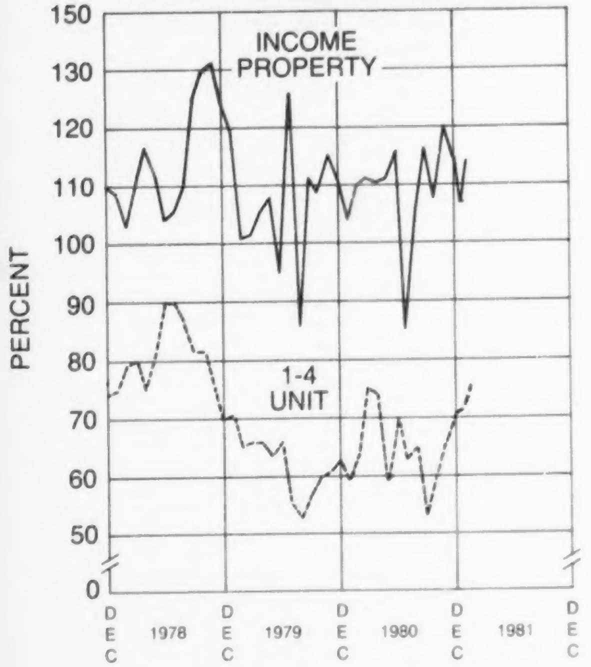
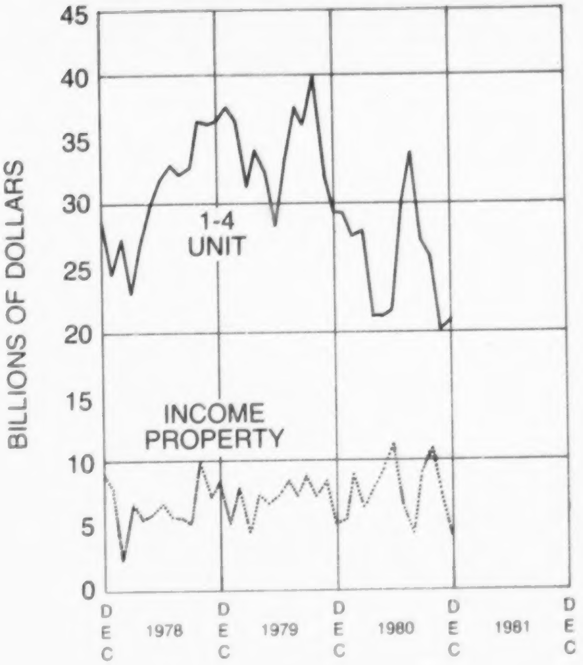
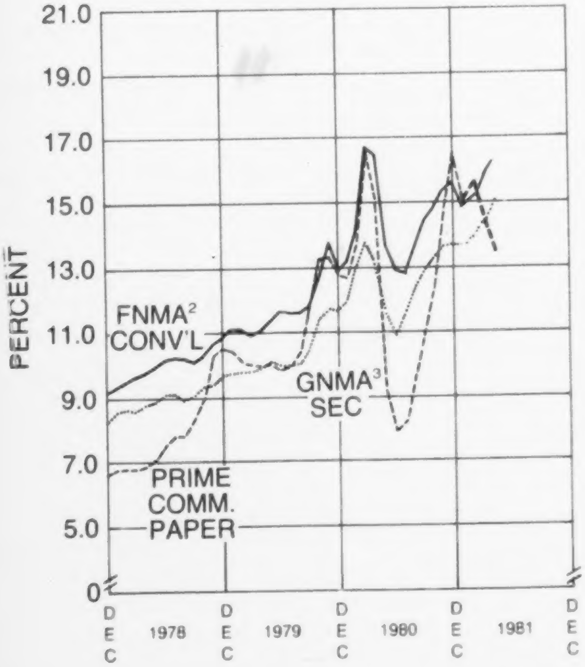


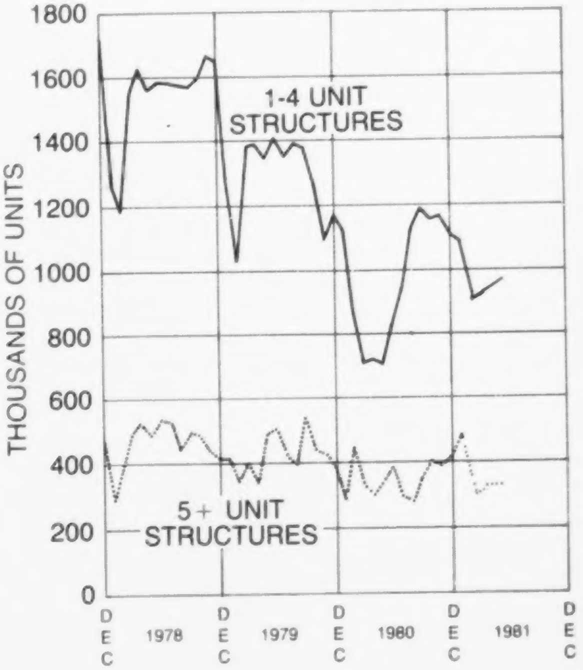
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE[1]



MORTGAGE BANKERS LONG-TERM MORTGAGE LOANS CLOSED[4]



SELECTED YIELDS



HOUSING STARTS[4]

FOOTNOTES

[1] OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100

[2] WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH

[3] SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY

[4] SEASONALLY ADJUSTED ANNUAL RATES

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION

MBA—ECONOMICS DEPARTMENT

MORTGAGE MARKET TRENDS—JULY 1981

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1980												
FEB	76	54	22	1,142	801	341	80	55	25	1,330	887	443
MAR	82	56	26	932	627	305	85	59	26	1,041	705	336
APR	77	54	23	789	536	253	96	71	25	1,030	728	302
MAY	77	56	21	825	576	249	92	73	19	913	714	199
JUN	101	69	32	1,078	721	357	116	84	32	1,223	832	391
JUL	113	84	29	1,236	900	336	119	94	25	1,249	951	298
AUG	116	86	30	1,361	988	373	129	104	25	1,416	1,139	277
SEP	143	94	49	1,564	1,060	504	138	107	31	1,545	1,189	356
OCT	127	89	38	1,333	953	380	154	112	42	1,561	1,157	404
NOV	95	65	30	1,355	953	402	112	82	30	1,563	1,167	396
DEC	88	56	33	1,235	869	366	96	65	31	1,535	1,105	430
1981												
JAN	70	47	23	1,228	857	371	82	57	25	1,615	1,138	477
FEB	73	49	24	1,165	780	385	72	56	18	1,214	903	311
MAR	100	70	31	1,153	786	367	108	80	28	1,289	939	350
APR	111p	80p	31p	1,185p	816p	369p	124p	93p	31p	1,343p	994p	349p
4 months												
1981	354	246	109				386	286	102			
1980	310	216	94				334	241	93			
1979	444	363	122				487	380	107			
1978	504	364	140				559	432	127			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res
1980				
FEB	130,053	54,463	20,664	54,926
MAR	120,768	48,797	19,628	52,343
APR	113,411	42,980	17,723	52,708
MAY	108,104	38,057	17,131	52,916
JUN	104,786	35,750	16,150	52,886
JUL	101,629	37,263	14,922	49,444
AUG	105,162	40,380	15,647	49,135
SEP	109,738	44,448	16,286	48,974
OCT	113,773	48,661	14,938	50,174
NOV	120,271	50,994	18,198	51,079
DEC	125,692	52,954	18,181	54,557
1981				
JAN	134,067	56,117	19,288	58,662
FEB	132,363	53,925	20,488	57,950
MAR	131,250	51,759	21,011	58,480
APR	128,953p	50,383p	20,787p	57,783p

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1980				
FEB	220	44	381	8.7
MAR	243	43	370	8.6
APR	224	36	361	10.2
MAY	219	43	349	8.1
JUN	233	48	342	7.2
JUL	275	55	339	6.2
AUG	286	60	332	5.6
SEP	293	48	339	7.1
OCT	282	44	343	7.8
NOV	210	37	344	9.2
DEC	187	34	337	10.2
1981				
JAN	166	36	331	9.3
FEB	175	40	324	8.1
MAR	190	48	321	6.7
APR	205p	42p	325p	7.7p
4 months				
1981	736	166		
1980	896	166		
1979	1,171	256		
1978	1,196	280		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1980																
FEB	5	8	39	24	125	178	524	315	3	8	47	23	73	223	701	333
MAR	10	10	40	22	122	120	442	248	7	12	45	21	105	178	511	247
APR	8	12	37	20	86	116	385	202	10	15	48	23	130	156	487	257
MAY	9	13	36	19	98	122	399	206	12	15	45	21	129	122	459	203
JUN	11	15	48	27	114	142	534	288	13	21	58	24	120	179	679	245
JUL	12	20	50	32	119	208	566	343	12	20	60	27	194	193	664	278
AUG	11	19	53	33	117	213	650	381	13	21	63	32	128	224	694	370
SEP	14	26	69	35	143	242	770	409	17	30	61	30	216	288	679	362
OCT	14	26	56	31	139	247	597	350	12	34	75	32	107	310	782	362
NOV	10	17	44	25	124	225	639	367	10	23	55	24	111	305	783	364
DEC	9	13	52	22	111	209	623	292	9	13	52	22	131	259	793	352
1981																
JAN	5	6	40	18	102	190	641	295	5	8	30	18	163	329	887	281
FEB	5	7	42	19	124	174	598	269	3	6	45	18	85	189	677	263
MAR	10	15	51	24	121	194	562	276	8	15	63	22	124	217	687	261
APR	12p	17p	51p	31p	139p	170p	554p	322p	10p	19p	67p	29p	115p	212p	705p	311p
4 months																
1981	32	45	184	92					26	48	205	87				
1980	28	38	155	89					26	41	180	89				
1979	43	75	205	149					39	62	170	141				
1978	49	103	217	176					37	86	181	163				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1980						
FEB	1,041	644	397	126	89	37
MAR	991	609	382	130	90	40
APR	953	588	365	135	93	42
MAY	918	570	348	120	87	33
JUN	900	566	334	131	89	42
JUL	890	572	318	125	82	43
AUG	887	576	311	128	96	32
SEP	905	601	304	116	81	35
OCT	935	620	315	120	89	31
NOV	932	632	312	114	81	33
DEC	918	657	311	129	99	30
1981						
JAN	892	570	313	88	69	18
FEB	869	551	318	93	72	22
MAR	867	554	313	105	74	31
APR	883p	568p	315p	110p	78p	31p
4 months						
1981				396	293	102
1980				516	366	148
1979				544	422	125
1978				510	409	102

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				FMS Auction Yields on 4 mo Commitments[6]			Aaa Utility New Issue	U.S. Gov't		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't
	FHA New[3]	Conventional		Conventional												
		New	Existing	New	Existing			FHA/VA	Conv			10-yr	26-wk			
1980																
FEB	n.a.	14.10	14.10	11.93	12.62	13.000-14.000	15.77	14.589	14.124	13.02	13.57	12.41	12.721	13.78	n.a.	61
MAR	14.63	16.05	16.05	12.62	12.87	n.a.		15.581	16.665	13.69	14.00	12.75	15.100	16.81	63	94
APR	13.45	15.55	15.55	13.03	13.57	n.a.		14.670	16.451	13.17	12.90	11.47	13.618	15.78	55	170
MAY	11.99	13.20	13.20	13.67	14.12	13.000-15.000	18.32	12.855	13.535	11.54	11.53	10.18	9.149	9.49	46	136
JUN	11.85	12.45	12.45	12.69	13.31	12.250-12.750		12.360	12.946	10.89	10.96	9.78	7.218	8.27	89	111
JUL	12.39	12.45	12.45	12.48	12.61	12.500-13.500		12.630	12.807	11.53	11.60	10.25	8.101	8.41	79	128
AUG	13.54	13.25	13.25	12.25	12.26	13.000-14.500	13.16	13.873	13.663	12.33	12.32	11.10	9.443	9.57	122	123
SEP	14.26	13.65	13.70	12.36	12.38	13.000-14.000		14.819	14.450	12.86	12.74	11.51	10.536	10.97	152	135
OCT	14.38	14.10	14.10	12.60	12.64	13.500-14.500		14.965	14.791	13.24	13.18	11.75	11.566	12.52	120	149
NOV	14.47	14.70	14.70	13.08	13.29	n.a.	15.31	15.530	15.280	13.69	13.85	12.68	13.612	15.18	62	101
DEC	14.08	15.05	15.05	13.28	13.58	n.a.		15.192	15.568	13.71	14.51	12.84	14.770	18.07	43	87
1981																
JAN	14.23	14.95	14.95	13.28	13.91	n.a.		14.870	14.923	13.65	14.12	12.57	13.883	16.58	11	108
FEB	14.79	15.10	15.10	13.54	14.13	n.a.	19.40	15.261	15.108	14.16	14.90	13.19	14.134	15.49	11	103
MAR	15.04	15.25	15.25	14.02	14.34	n.a.		15.590	15.337	14.15	14.71	13.12	12.983	13.94	33	103
APR	15.91	15.70	15.75	14.15	14.48	n.a.		16.652	15.674	15.05	15.68	13.68	13.434	13.69	23	137

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5 + Units					Nonresidential				
	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos.
1979																				
DEC	15.040	3.338	5.223	5.018	1.461	11.801	2.552	4.584	3.338	427	792	130	270	251	141	3.346	655	369	1.429	893
1980																				
JAN	12.134	2.588	4.070	4.073	1.403	8.731	2.271	3.589	2.703	168	588	82	208	204	94	2.816	236	273	1.166	1.141
FEB	11.975	2.733	4.281	3.802	1.159	8.469	2.055	3.805	2.361	248	919	454	204	148	113	2.587	224	272	1.293	798
MAR	14.187	2.632	5.487	4.509	1.559	10.372	2.085	4.955	2.899	433	517	72	224	135	86	3.298	475	308	1.475	1.040
APR	12.363	2.297	4.707	4.111	1.248	8.868	1.662	4.216	2.749	241	614	94	218	137	165	2.881	541	273	1.225	842
MAY	9.852	2.080	3.536	3.301	935	6.860	1.606	2.996	2.051	207	429	41	220	102	66	2.563	433	320	1.148	662
JUN	10.873	2.830	4.076	2.872	1.095	7.351	1.910	3.533	1.794	114	1.099	596	248	167	88	2.423	324	295	911	893
JUL	12.555	3.020	5.468	2.947	1.120	9.560	2.530	4.885	2.041	104	615	100	313	94	108	2.380	390	270	812	908
AUG	15.579	3.160	7.722	3.710	1.167	12.675	2.780	7.089	2.732	74	626	60	276	162	128	2.458	320	357	816	965
SEP	17.767	3.360	8.597	4.942	868	14.026	2.490	7.818	3.635	83	1.007	440	364	116	87	2.734	430	415	1.191	698
OCT	17.746	3.030	8.423	5.151	1.142	13.806	2.350	7.616	3.786	72	926	240	327	183	176	2.996	440	480	1.182	894
NOV	13.249	2.280	5.913	3.923	1.133	9.903	1.690	5.316	2.847	50	670	190	226	142	112	2.676	400	371	934	971
DEC	14.623	3.040	6.035	4.106	1.442	9.911	2.050	5.277	2.563	21	1.190	480	272	237	201	3.522	510	486	1.306	1.220
1981																				
JAN	10.654	2.860	3.831	3.039	924	6.535	1.480	3.392	1.633	30	1.569	1.130	151	205	83	2.550	250	288	1.201	811
FEB	9.045	1.920	3.422	2.795	908	5.952	1.450	2.929	1.543	30	519	90	218	129	82	2.574	380	275	1.123	796

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos
1979										
NOV	79.324	14.824	23.714	11.315	29.471	12.023	3.415	4.741	2.407	1.460
DEC	73.350	13.473	21.467	10.504	27.906	8.533	2.608	3.248	1.892	785
1980										
JAN	67.753	11.983	20.502	8.929	26.339	8.579	2.984	3.510	1.545	540
FEB	68.818	12.333	21.351	9.717	25.417	9.400	2.046	5.017	1.637	700
MAR	66.122	11.974	20.424	9.215	24.509	9.924	2.372	4.782	1.850	920
APR	60.999	10.500	18.597	8.286	23.616	7.126	1.964	3.147	1.276	739
MAY	58.833	10.336	17.762	8.011	22.724	7.051	2.958	2.802	901	390
JUN	58.058	9.960	18.848	7.651	21.599	9.046	2.850	4.580	1.250	366
JUL	63.525	13.750	21.310	7.769	20.696	12.568	3.050	7.128	1.626	764
AUG	65.653	12.640	23.876	9.032	20.105	14.951	2.680	9.510	2.076	685
SEP	66.681	12.800	24.476	9.230	20.175	15.381	2.500	8.858	2.676	1.347
OCT	66.925	14.670	23.641	8.899	19.715	13.557	3.230	7.305	2.142	880
NOV	65.262	14.770	22.790	8.629	19.063	10.048	2.540	5.146	1.608	754
DEC	63.812	16.430	20.857	8.582	17.943	10.292	3.540	4.460	1.675	617
1981										
JAN	60.997	16.210	19.818	7.922	17.047	7.914	3.270	3.174	1.133	337
FEB	59.438	15.250	19.856	7.993	16.339	8.363	3.100	3.564	1.124	575

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
		FHA		Total		FHA (203)		VA		Private	
	Total	VA	Private	Units	Amt	Units	Amt	Units	Amt	Units	Amt.
1979											
NOV	116	76	40	102	4.493	27	1.004	29	1.391	46	2.098
DEC	79	50	29	91	4.117	20	769	31	1.531	40	1.817
1980											
JAN	90	66	24	100	4.534	31	1.142	39	1.956	30	1.436
FEB	91	63	28	71	3.153	21	753	26	1.301	24	1.099
MAR	101	61	40	74	3.371	18	696	27	1.329	29	1.346
APR	90	58	32	76	3.473	20	746	23	1.149	33	1.578
MAY	101	76	25	56	2.608	13	483	17	848	26	1.277
JUN	105	78	27	50	2.273	13	502	15	741	22	1.030
JUL	138	99	39	63	2.904	20	823	16	817	27	1.264
AUG	139	89	50	70	3.389	23	958	17	944	30	1.487
SEP	136	76	60	94	4.592	23	945	30	1.624	41	2.023
OCT	115	59	56	95	4.580	24	990	21	1.133	50	2.457
NOV	90	48	42	79	3.824	18	725	21	1.135	40	1.964
DEC	95	50	45	82	3.995	20	836	18	954	44	2.205
1981											
JAN	70	46	24	62	2.895	14	542	18	917	30	1.436
FEB	74	49	25	50	2.504	13	510	13	745	24	1.249

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA					FHLMC			GNMA	
	4-Month Commitments				12 Month Convert Standbys				Pass Through Securities	
	FHA/VA		Conventional							
	Bid	Accept	Bid	Accept		Comm	Purc	Sold	Applications	Issued
1980										
FEB	1.169	564	412	148	225	197	248	207	2.178	1.354
MAR	1.267	426	919	240	242	186	193	106	5.124	1.125
APR	494	199	135	66	85	189	231	200	4.509	1.778
MAY	609	214	280	109	62	491	176	391	5.281	1.127
JUN	603	267	170	76	92	577	225	230	6.627	1.320
JUL	1.255	506	229	141	72	702	440	288	5.322	1.874
AUG	1.347	775	430	219	112	476	495	320	4.936	2.215
SEP	1.268	741	348	210	102	218	521	275	6.850	1.807
OCT	584	344	108	64	100	221	398	193	7.757	2.255
NOV	331	176	82	69	214	180	231	88	2.277	1.613
DEC	309	137	85	54	180	126	285	48	3.575	1.569
1981										
JAN	275	122	32	30	78	203	152	168	3.656	1.300
FEB	199	115	118	79	41	294	174	94	2.231	1.306
MAR	197	139	149	98	67	768	148	128	3.297	1.046
APR	175	147	127	92	22	886	125	97	2.962	1.404

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res		Total	1-4 Units	5 + Units	Non-res.
1980									
FEB	207	80	49	78	31	4.512	1.160	1.652	1.700
MAR	259	91	46	121	24	4.272	1.201	1.585	1.486
APR	191	71	40	81	59	3.484	1.104	1.042	1.338
MAY	209	88	47	74	72	4.254	965	1.789	1.500
JUN	243	89	47	107	55	4.209	1.016	1.604	1.589
JUL	376	100	61	215	73	3.954	1.093	1.322	1.539
AUG	310	130	70	110	70	4.390	1.250	1.240	1.830
SEP	310	139	73	98	78	4.537	1.382	1.814	1.341
OCT	281	114	55	112	420	5.140	1.625	1.900	1.615
NOV	286	87	115	84	121	6.202	1.106	2.568	2.528
DEC	411	220	71	120	94	6.148	1.102	2.502	2.544
1981									
JAN	355	187	58	111	220	5.854	1.481	2.886	1.487
FEB	351	211	46	94	140	6.576	1.471	2.723	2.382
MAR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
APR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.-Not available; p-Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series

[2] Reflects cumulative total through the latest month for each column

[3] Secondary market gross yields.

[4] Benchmark rates, Citicorp Real Estate, Inc

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids

[7] Survey of three New York security dealers. Securities for immediate delivery

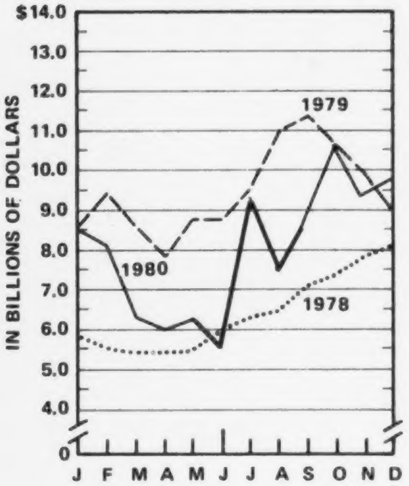
[8] Mutual Savings Banks and Commercial Banks

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate, Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration

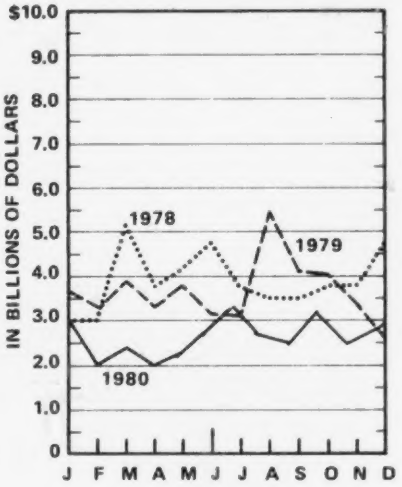
MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGES

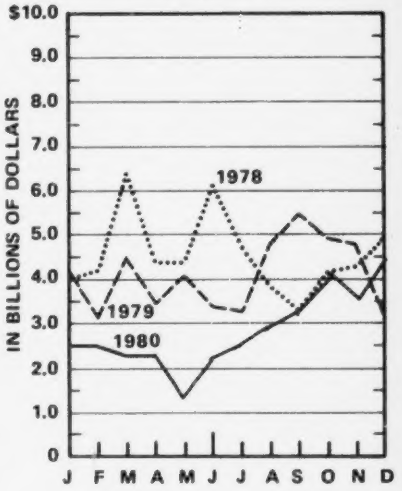
Inventory: Own Account



Commitments Issued

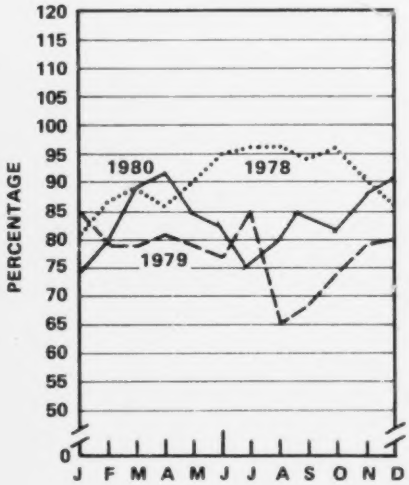


Commitments Received

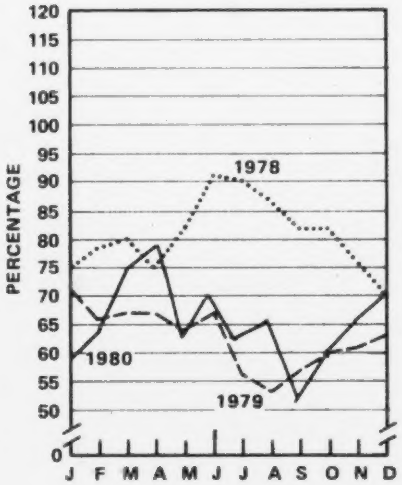


COVERAGE[1]

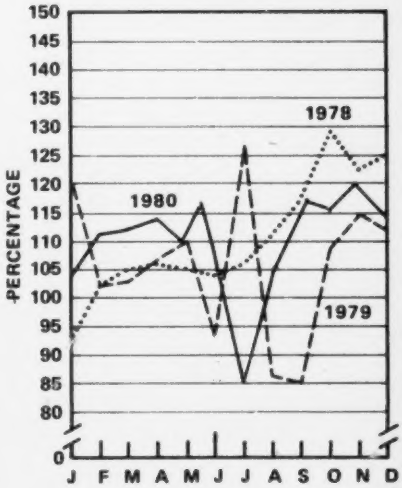
All Loans



1-To 4-Unit Loans



Income Property Loans



[1] Percent coverage is outstanding long-term commitments received from investors, divided by the sum of outstanding end of month inventory and outstanding long-term commitments issued to borrowers, multiplied by 100

Note: Data are estimates for all mortgage banking members of MBA. Estimates for the 630 mortgage banking members are based on a sample of firms representing 25 percent of the total long-term originations in the industry. The current month's data are preliminary and will be revised the following month. Once each year when new annual benchmark data for the industry becomes available, the monthly data are again revised to match the annual industry totals published in *Mortgage Banking: Loans Closed and Servicing Volume*. The latest benchmark revisions were made effective with the December 1978 benchmarks.

Source: MBA Economics Department

MORTGAGE BANKING ACTIVITY
(All dollar amounts are in millions)

LOANS CLOSED

	LONG-TERM MORTGAGE LOANS													CONSTRUCTION LOANS
	Seasonally Adjusted				Not Seasonally Adjusted									
						1-4 Units				5 Units or More				
Year and Month	Total[1]	1-4 Units	5 Units or More	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total
1980														
FEB	$2,900	$2,300	$ 580	$ 170	$ 2,740	$ 2,060	$740	$ 720	$ 600	$ 460	$ 350	$110	$ 220	$ 490
MAR	3,060	2,320	60	470	2,630	2,090	750	710	630	70	40	30	470	460
APR	2,340	1,770	60	610	2,300	1,660	530	470	660	100	20	80	540	510
MAY	2,450	1,740	70	680	2,060	1,610	580	470	560	40	0	40	430	690
JUN	2,620	1,820	400	520	2,760	1,970	950	660	360	420	110	310	370	540
JUL	2,950	2,470	80	480	3,020	2,530	1,170	910	450	100	90	10	390	1,960
AUG	3,030	2,830	60	310	3,160	2,780	1,180	1,060	540	60	60	0	320	1,150
SEP	2,950	2,270	370	390	3,280	2,460	1,000	880	580	440	440	0	380	380
OCT	2,760	2,160	470	460	3,030	2,350	880	780	690	240	170	70	440	500
NOV	2,300	1,680	190	440	2,280	1,690	580	550	560	190	160	30	400	300
DEC	2,620	1,900	380	250	3,040	2,050	750	660	640	480	410	70	510	780
1981														
JAN	3,130	1,590	1,990	340	2,860	1,480	540	460	480	1,130	750	380	250	290
FEB p	2,040	1,620	110	290	1,920	1,450	590	460	400	90	50	40	380	320
Year-to-date														
1980	$32,800	$25,700	$2,870	$5,110	$32,910	$25,520	$9,820	$8,580	$7,120	$2,680	$1,850	$ 830	$4,710	$8,320
1979	41,590	34,190	2,520	4,600	41,410	34,160	12,090	11,910	10,160	2,760	1,350	1,410	4,490	11,210
1978	37,300	30,920	2,560	3,980	37,770	31,150	10,040	11,000	10,110	2,450	920	1,530	4,170	7,520

OUTSTANDING END OF MONTH INVENTORY

COVERAGE[2]

	LONG TERM MORTGAGE LOANS										CONSTRUCTION LOANS				COVERAGE[2]		
		1-4 Units				5 Units or More											
Year and Month	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.		Total	1-4 Units	5 Units or More	Non-Res.	1-4 Units	5 Units or More	Non-Res.
1980																	
FEB	$8,080	$6,440	$1,950	$1,570	$2,920	$ 550	$ 30	$520	$1,090		$2,360	$ 860	$560	$940	64%	136%	103%
MAR	6,310	4,720	1,220	1,100	2,400	590	40	550	1,000		2,430	930	580	920	75	137	104
APR	5,800	4,120	1,020	870	2,230	680	10	670	1,000		2,310	800	570	940	74	137	103
MAY	5,760	4,050	1,010	830	2,210	780	10	770	930		2,190	780	580	830	59	134	105
JUN	5,690	3,840	1,240	870	1,730	960	20	940	890		2,460	810	590	1,060	70	141	103
JUL	9,260	4,900	1,550	1,170	2,180	2,430	1,500	930	1,930		2,480	760	660	1,060	63	121	85
AUG	7,560	5,070	1,710	1,370	1,990	940	30	910	1,550		2,490	900	610	980	65	123	96
SEP	9,230	6,910	2,200	2,040	2,670	940	30	910	1,380		2,580	880	650	1,050	53	113	120
OCT	10,530	6,710	2,030	1,730	2,950	2,390	1,510	880	1,430		2,520	810	690	1,020	60	116	116
NOV	9,480	5,810	1,620	1,350	2,840	2,340	1,550	790	1,330		2,960	820	860	1,280	66	113	129
DEC	11,200	7,060	1,920	1,560	3,580	2,640	1,540	1,100	1,500		3,190	840	940	1,410	69	109	118
1981																	
JAN	9,670	5,690	1,320	990	2,380	2,720	1,400	1,320	1,260		3,060	1,050	800	1,210	73	112	105
FEB p	7,640	5,130	1,420	1,060	2,610	1,320	20	1,300	1,190		3,210	1,020	730	1,460	76	125	106

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH							
	To Borrowers				From Investors				To Borrowers				From Investors			
Year and Month	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.
1980																
FEB	$ 2,050	$ 1,820	$ 60	$ 170	$ 2,490	$ 2,210	$ 80	$ 200	$ 7,380	$3,780	$ 740	$2,860	$12,340	$6,530	$1,750	$4,060
MAR	2,380	2,040	90	250	2,260	1,830	170	260	7,120	3,680	710	2,730	11,980	6,330	1,780	3,870
APR	1,970	1,680	40	250	2,180	1,500	170	510	6,080	3,170	520	2,390	10,510	5,370	1,650	3,490
MAY	2,960	2,730	90	140	1,550	1,290	100	160	7,120	3,820	570	2,730	10,340	4,680	1,810	3,850
JUN	2,840	2,480	160	200	2,280	1,430	540	310	7,670	4,320	830	2,520	12,850	6,810	2,530	3,510
JUL	3,050	2,850	70	130	2,540	2,190	150	200	9,190	5,000	1,440	2,750	13,750	6,520	3,250	3,980
AUG	2,680	2,090	190	400	2,990	2,240	110	640	8,200	4,830	950	2,420	12,640	6,480	2,330	3,830
SEP	2,700	1,970	200	530	3,180	2,230	220	730	7,620	4,470	880	2,270	12,530	6,080	2,050	4,400
OCT	3,230	2,320	70	840	4,020	2,100	310	1,610	7,330	4,060	780	2,490	14,670	6,440	3,680	4,550
NOV	2,540	1,460	680	400	3,790	2,190	700	900	7,230	3,920	1,160	2,150	14,770	6,380	3,960	4,430
DEC	3,540	1,840	810	890	4,840	1,750	140	1,950	7,620	4,010	1,220	2,390	16,430	7,630	4,210	4,590
1981																
JAN	3,270	2,750	250	300	2,450	1,920	270	260	8,510	4,210	1,570	2,730	16,210	7,230	4,790	4,190
FEB p	3,100	2,640	170	290	4,490	3,870	300	320	9,140	5,050	1,600	2,490	15,250	7,690	3,660	3,900
Year-to-date																
1980	$32,930	$25,970	$2,560	$4,400	$34,620	$22,910	$4,020	$ 7,690								
1979	44,430	33,110	2,220	9,100	49,350	35,280	3,190	10,880								
1978	46,920	32,930	1,690	12,300	54,830	37,690	2,710	14,430								

[1] Total is seasonally adjusted separately from components. Total, therefore, may not equal the sum of the parts.

[2] Percent coverage is outstanding long term commitments received from investors, divided by the sum of outstanding end of month inventory and outstanding long term commitments issued to borrowers, multiplied by 100.

Note: All series labeled "non residential" are also inclusive of farm data.

BANKING

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PROPERTY MANAGEMENT
LEASING
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COMMERCIAL SALES
PROPERTY DEVELOPM

Inside:
Title Insurance

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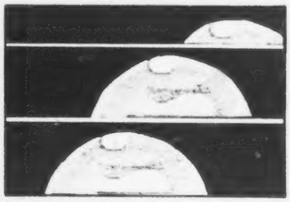
Making the
Numbers Work
Page 18

New Insurance
Needs
Page 30



The Case for
Optimism
Page 55

Opinion from Industry Leaders: Income Property Issues 10

Title Insurance

Title Insurance Statistics: Making the Numbers Work 18
Hugh D. Reams, Jr.

Title Insurer As Loan Closer: Added Protection for Lenders 25
Charles A. Willis

AMIs' New Insurance Needs 30
Donald P. Waddick

Torrens: Not a Panacea 34
Edward Moskowitz and Harry Gold

Time to Take Charge 45
Thomas T. Shealy

Survey Seeks New Financing Data 51

Innovation in North Carolina: Team Effort Taps Pension Funds 52
Thomas D. Pearson

Real Estate's Future: The Case for Optimism 55
Daniel A. Blumberg

Departments

Starts 5
Association 5
Industry 7
People 63
Mortgage Market Trends 65
Classified Advertisements 72
Advertisers Index 73

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Mortgage Market Trends

Prepared by MBA's Economics Department

July 17, 1981

The economy performed with relative strength during the first half of 1981, particularly in light of high interest rates and relatively high unemployment. Given the strong growth in real GNP during the first quarter of the year, it is likely that growth for the year as a whole will be near the 3 percent level.

Inflationary expectations also appear to be on the brink of change. In almost every month during the first half of the year the Consumer Price Index hovered around 8 percent. During the first four months of 1981 the annualized rate of increase in the Consumer Price Index was only 8.1 percent, compared with a 14.7 percent rate during the same period of 1980. The improvement in inflationary pressure is also reflected in the GNP deflator and producer prices, indicating that reduced inflation is likely to be more lasting than was suspected only a short time ago.

The basis for change in economic expectations clearly lies in the passage and implementation of the administration's fiscal policies. The administration has already achieved authorization for a significant reduction in the rate of federal government spending, as well as a staged reduction in marginal income tax rates. The lid has been placed on the spending side, despite the significant increase in defense spending.

As expenditures remain level while revenues decline, the federal deficit must grow. This growth will have to be financed in the credit market. The impact of this temporary imbalance is, however, not likely to be substantial, nor exist for a prolonged period, and will most probably be felt during the first quarter of 1982. Offsetting the impact of an increased deficit, we should see some increase in available savings, as well as some tax revenue gains from increased economic activity. The reduction in marginal tax rates will provide more funds for the upper income brackets, where the marginal propensity to consume is lowest. Therefore, the reduction in marginal tax rates should stimulate additional net new savings.

Therefore, as we progress through the next year and a half, we should see a general decline in all interest rates with upward aberrations in short-term rates as the defense industry gears up for increased activity and the federal government is required to finance a temporary shortgage of funds late in 1981 and early in 1982.

While housing starts have been depressed during 1980 and 1981, running in the 1.3 million unit range, it is quite likely that starts during 1982 will exceed 1.5 million. The depressed level of construction activity is largely attributable to high financing costs for both the potential buyers and builders. Similarly, the sale of existing houses has experienced the same depressed level of activity. The underlying strength in the resale market is largely tied to owner financing and special types of financing, such as a heavy use of wrap-around loans and second deeds of trust.

The level of interest rates during the second quarter of 1981 and into the third quarter has been substantially higher than during 1980 and should result in a lowering of starts to a level consistent with 1980. Builder buydowns have provided some strength to construction activity, and this has kept the starts levels higher than would have otherwise occurred. We should see builders willing to increase inventories slightly and thus cause some gain in housing starts (on a seasonally adjusted basis) during the fall months.

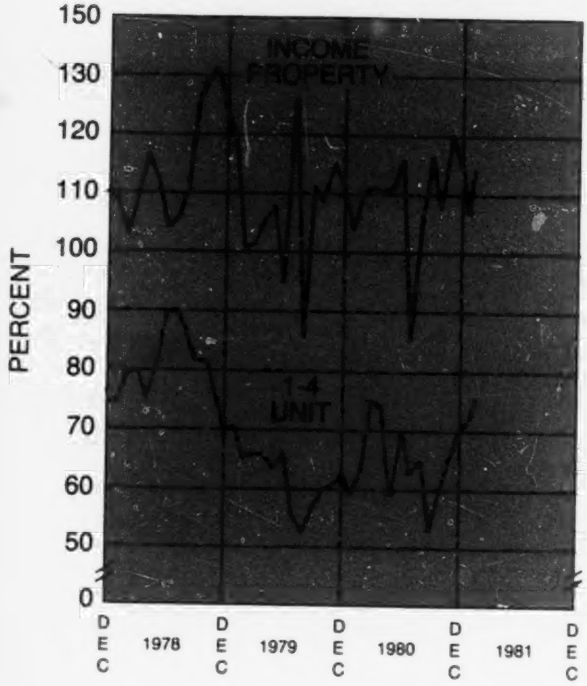
On the buyers' side of the market we should witness some decline in long-term mortgage interest rates from the current 16 percent level into the area of 14 to 15 percent by September or November. The lower mortgage rate combined with lower construction loan costs will allow builders to more effectively buy down rates for potential purchasers and allow construction activity to hold its relative strength through the final months of 1981.

In the income property area the next six to eight months should be a slow period, with the value of construction contracts awarded remaining near current levels. As the long-term government bond rate approaches 12 percent by January 1982, and the prime rate nears 13 percent, income property activity should begin to revive. The demographics of the income property market, however, are beginning to weaken—particularly for the office building sector. Both 1982 and 1983 should be golden years for the office building market, while reindustrialization adds strength to the warehouse and industrial sectors. Income property activity should begin to boom late in 1982 and easily carry through 1983, although financing techniques are not likely to return to those of the past. More equity deals and joint ventures appear to be the most likely forms of financing for the future development of income properties.

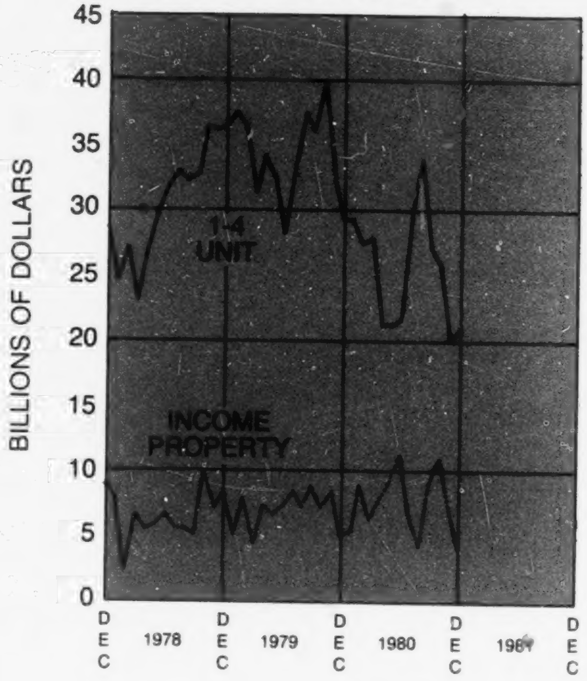
Finally, the growth of the mortgage banking function is likely to slow or reverse over the next year and a half as lending institutions begin to make variable rate loans for their own portfolios. Experimentation with variable rate loans should reduce secondary market activity on the part of thrift institutions and commercial banks as they gain experience in this new type of lending. A reduction in secondary market activity by portfolio lenders should lead to a better and more stable market for mortgage bankers.

Dr. Thomas R. Harter,
Chief Economist

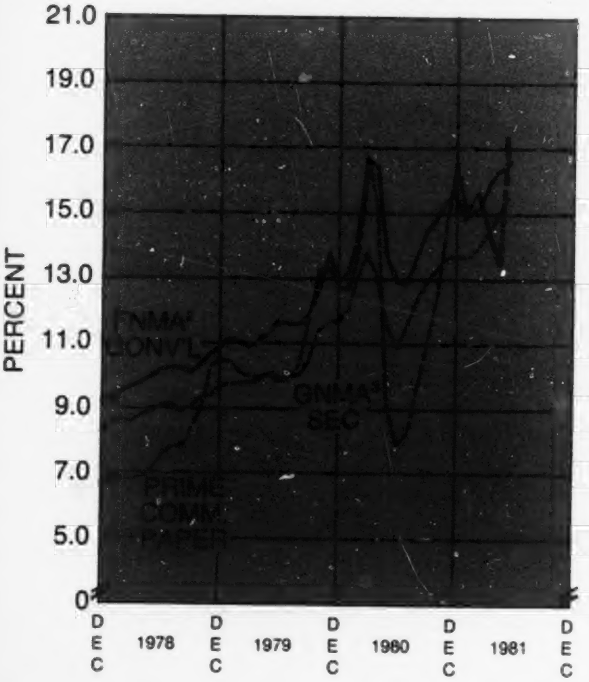
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE[1]



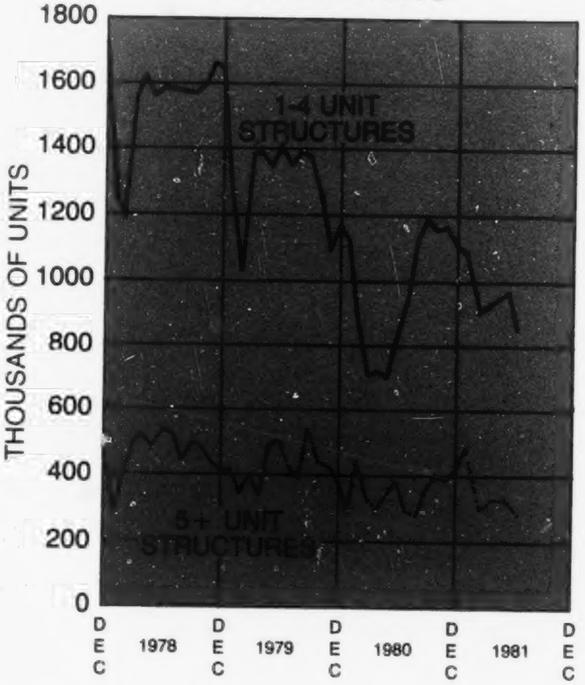
MORTGAGE BANKERS LONG-TERM MORTGAGE LOANS CLOSED[4]



SELECTED YIELDS



HOUSING STARTS[4]



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.
2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.
3. SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY.
4. SEASONALLY ADJUSTED ANNUAL RATES.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION.

MBA—ECONOMICS DEPARTMENT

MORTGAGE MARKET TRENDS—AUGUST 1981

RESIDENTIAL STRUCTURES, BY UNIT TYPE
(Units in thousands)

VALUE OF NEW CONSTRUCTION PUT IN PLACE
(Dollars in millions)

HOUSE SALES
(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS														
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate			Seasonally Adjusted Annual Rate				EXISTING HOUSES[1]	NEW HOUSES		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1 Unit	2+ Units	Non-Res.		Sold	Available For Sale	Months Supply at Current Rate
MAR	82	56	26	932	627	305	85	59	26	1,041	705	336	120,768	48,797	19,628	52,343	243	43	370	8.6
APR	77	54	23	789	536	253	96	71	25	1,030	728	302	113,411	42,980	17,723	52,708	224	36	361	10.2
MAY	77	56	21	825	576	249	92	73	19	913	714	199	108,104	38,057	17,131	52,916	219	43	349	8.1
JUN	101	69	32	1,078	721	357	116	84	32	1,223	832	391	104,786	35,750	16,150	52,886	233	48	342	7.2
JUL	113	84	29	1,236	900	336	119	94	25	1,249	951	298	101,629	37,263	14,922	49,444	275	55	339	6.2
AUG	116	86	30	1,361	988	373	129	104	25	1,416	1,139	277	105,162	40,380	15,647	49,135	286	60	332	5.6
SEP	143	94	49	1,564	1,060	504	138	107	31	1,545	1,189	356	109,738	44,448	16,286	48,974	293	48	339	7.1
OCT	127	89	38	1,333	953	380	154	112	42	1,561	1,157	404	113,773	48,661	14,938	50,174	282	44	343	7.8
NOV	95	65	30	1,355	953	402	112	82	30	1,563	1,167	396	120,271	50,994	18,198	51,079	210	37	344	9.2
DEC	88	56	33	1,235	869	366	96	65	31	1,535	1,105	430	125,692	52,954	18,181	54,557	187	34	337	10.2
1981																				
JAN	70	47	23	1,228	857	371	82	57	25	1,615	1,138	477	134,067	56,117	19,288	58,662	166	36	331	9.3
FEB	73	49	24	1,165	780	385	72	56	18	1,214	903	311	132,363	53,925	20,488	57,950	175	40	324	8.1
MAR	100	70	31	1,153	786	367	108	80	28	1,289	939	350	131,250	51,759	21,011	58,480	220	48	321	6.7
APR	111	79	31	1,186	811	375	124	93	31	1,340	993	347	131,000	52,047	20,858	58,095	233	42	325	7.8
MAY	102p	69p	33p	1,182p	762p	421p	110p	84p	26p	1,152p	867p	285p	122,940p	49,277p	18,296p	55,367p	227p	46p	321p	7.0p
5 months																				
1981	456	314	142				496	370	128								1,021	212		
1980	387	272	115				426	314	112								1,115	209		
1979	607	433	164				675	523	152								1,542	325		
1978	665	486	177				771	597	174								1,574	360		

RESIDENTIAL STRUCTURES, BY REGION
(units in thousands)

CONSTRUCTION STATUS
(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS													
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate				UNDER CONSTRUCTION			COMPLETIONS		
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
MAR	10	10	40	22	122	120	442	248	7	12	45	21	105	178	511	247	991	609	382	130	90	40
APR	8	12	37	20	86	116	385	202	10	15	48	23	130	156	487	257	953	588	365	135	93	42
MAY	9	13	36	19	98	122	399	206	12	15	45	21	129	122	459	203	918	570	348	120	87	33
JUN	11	15	48	27	114	142	534	288	13	21	58	24	120	179	679	245	900	566	334	131	89	42
JUL	12	20	50	32	119	208	566	343	12	20	60	27	194	193	664	278	890	572	318	125	82	43
AUG	11	19	53	33	117	213	650	381	13	21	63	32	128	224	694	370	887	576	311	128	96	32
SEP	14	26	69	35	143	242	770	409	17	30	61	30	216	288	679	362	905	601	304	116	81	35
OCT	14	26	56	31	139	247	597	350	12	34	75	32	107	310	782	362	935	620	315	120	89	31
NOV	10	17	44	25	124	225	639	367	10	23	55	24	111	305	783	364	932	632	312	114	81	33
DEC	9	13	52	22	111	209	623	292	9	13	52	22	131	259	793	352	918	657	311	129	99	30
1981																						
JAN	5	6	40	18	102	190	641	295	5	8	30	18	163	329	887	281	892	570	313	88	69	18
FEB	5	7	42	19	124	174	598	269	3	6	45	18	85	189	677	263	869	551	318	93	72	22
MAR	10	15	51	24	121	194	562	276	8	15	63	22	124	217	687	261	867	554	313	105	74	31
APR	12	16	53	30	139	154	576	317	10	19	67	28	119	205	709	307	882	564	317	111	80	31
MAY	11p	44p	47p	31p	119p	142p	556p	365p	11p	20p	53p	26p	119p	176p	592p	265p	897p	575p	322p	95p	73p	22p
5 months																						
1981	43	58	233	122					37	68	258	112								492	368	124
1980	37	51	191	108					38	56	225	110								636	453	183
1979	60	111	245	193					59	124	299	195								702	534	168
1978	61	138	247	221					60	152	337	221								657	530	127

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[4]	CONSTRUCTION LOANS[5] ALL TYPES	FNMA		GNMA Current Securities Yield[7]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				FMS Auction Yields on 4 mo. Commitments[6]			Aaa Utility New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
	FHA New[3]	Conventional		Conventional												
		New	Existing	New	Existing			FHA/VA	Conv.			10-yr	26-wk			
1980																
MAR	14.63	16.05	16.05	12.62	12.87	n.a.		15.581	16.665	13.69	14.00	12.75	15.100	16.81	63	94
APR	13.45	15.55	15.55	13.03	13.57	n.a.		14.670	16.451	13.17	12.90	11.47	13.618	15.78	55	170
MAY	11.99	13.20	13.20	13.67	14.12	13.000-15.000	18.32	12.855	13.535	11.54	11.53	10.18	9.149	9.49	46	136
JUN	11.85	12.45	12.45	12.69	13.31	12.250-12.750		12.360	12.946	10.89	10.96	9.78	7.218	8.27	89	111
JUL	12.39	12.45	12.45	12.48	12.61	12.500-13.500		12.630	12.807	11.53	11.60	10.25	8.101	8.41	79	128
AUG	13.54	13.25	13.25	12.25	12.26	13.000-14.500	13.16	13.873	13.663	12.33	12.32	11.10	9.443	9.57	122	123
SEP	14.26	13.65	13.70	12.36	12.38	13.000-14.000		14.819	14.450	12.86	12.74	11.51	10.546	10.97	152	135
OCT	14.38	14.10	14.10	12.60	12.64	13.500-14.500		14.965	14.791	13.24	13.18	11.75	11.566	12.52	120	149
NOV	14.47	14.70	14.70	13.08	13.29	n.a.	15.31	15.530	15.280	13.69	13.85	12.68	13.612	15.18	62	101
DEC	14.08	15.05	15.05	13.28	13.58	n.a.		15.192	15.568	13.71	14.51	12.84	14.770	18.07	43	87
1981																
JAN	14.23	14.95	14.95	13.28	13.91	n.a.		14.870	14.923	13.65	14.12	12.57	13.883	16.58	11	108
FEB	14.79	15.10	15.10	13.54	14.13	n.a.	19.40	15.261	15.108	14.16	14.90	13.19	14.134	15.49	11	103
MAR	15.04	15.25	15.25	14.02	14.34	n.a.		15.590	15.337	14.15	14.71	13.12	12.983	13.94	33	103
APR	15.91	15.70	15.75	14.15	14.48	n.a.		16.652	15.674	15.05	15.68	13.68	13.434	14.56	23	137
MAY	16.33	16.35	16.40	14.15	14.64	n.a.	n.a.	17.255	16.434	15.55	15.81	14.10	15.334	17.56	52	145

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT. AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1979																				
DEC	15,040	3,338	5,223	5,018	1,461	11,801	2,552	4,584	3,338	427	792	130	270	251	141	3,346	655	369	1,429	893
1980																				
JAN	12,134	2,588	4,070	4,073	1,403	8,731	2,271	3,589	2,703	168	588	82	208	204	94	2,816	236	273	1,166	1,141
FEB	11,975	2,733	4,281	3,802	1,159	8,469	2,055	3,805	2,361	248	919	454	204	148	113	2,587	224	272	1,293	798
MAR	14,187	2,632	5,487	4,509	1,559	10,372	2,085	4,955	2,899	433	517	72	224	135	86	3,298	475	308	1,475	1,040
APR	12,363	2,297	4,707	4,111	1,248	8,868	1,662	4,216	2,749	241	614	94	218	137	165	2,881	541	273	1,225	842
MAY	9,852	2,080	3,536	3,301	935	6,860	1,606	2,996	2,051	207	429	41	220	102	66	2,563	433	320	1,148	662
JUN	10,873	2,830	4,076	2,872	1,095	7,351	1,910	3,533	1,794	114	1,099	596	248	167	88	2,423	324	295	911	893
JUL	12,555	3,020	5,468	2,947	1,120	9,560	2,530	4,885	2,041	104	615	100	313	94	108	2,380	390	270	812	908
AUG	15,579	3,160	7,722	3,710	1,167	12,675	2,780	7,089	2,732	74	626	60	276	162	128	2,458	320	357	816	965
SEP	17,767	3,360	8,597	4,942	868	14,026	2,490	7,818	3,635	83	1,007	440	364	116	87	2,734	430	415	1,191	698
OCT	17,746	3,030	8,423	5,151	1,142	13,806	2,350	7,616	3,786	72	926	240	327	183	176	2,996	440	480	1,182	894
NOV	13,249	2,280	5,913	3,923	1,133	9,903	1,690	5,316	2,847	50	670	190	226	142	112	2,676	400	371	934	971
DEC	14,623	3,040	6,035	4,106	1,442	9,911	2,050	5,277	2,563	21	1,190	480	272	237	201	3,522	510	486	1,306	1,220
1981																				
JAN	10,654	2,860	3,831	3,039	924	6,535	1,480	3,392	1,633	30	1,569	1,130	151	205	83	2,550	250	288	1,201	811
FEB	9,045	1,920	3,422	2,795	908	5,952	1,450	2,929	1,543	30	519	90	218	129	82	2,574	380	275	1,123	796

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[8]	Life Cos.
1979										
NOV	79,324	14,824	23,714	11,315	29,471	12,023	3,415	4,741	2,407	1,460
DEC	73,350	13,473	21,467	10,504	27,906	8,533	2,608	3,248	1,892	785
1980										
JAN	67,753	11,983	20,502	8,929	26,339	8,579	2,984	3,510	1,545	540
FEB	68,818	12,333	21,351	9,717	25,417	9,400	2,046	5,017	1,637	700
MAR	66,122	11,974	20,424	9,215	24,509	9,924	2,372	4,782	1,850	920
APR	60,999	10,500	18,597	8,286	23,616	7,126	1,964	3,147	1,276	739
MAY	58,833	10,336	17,762	8,011	22,724	7,051	2,958	2,802	901	390
JUN	58,058	9,960	18,848	7,651	21,599	9,046	2,850	4,580	1,250	366
JUL	63,525	13,750	21,310	7,769	20,696	12,568	3,050	7,128	1,626	764
AUG	65,653	12,640	23,876	9,032	20,105	14,951	2,680	9,510	2,076	685
SEP	66,681	12,800	24,476	9,230	20,175	15,381	2,500	8,858	2,676	1,347
OCT	66,925	14,670	23,641	8,899	19,715	13,557	3,230	7,305	2,142	880
NOV	65,262	14,770	22,790	8,629	19,063	10,048	2,540	5,146	1,608	754
DEC	63,812	16,430	20,857	8,582	17,943	10,292	3,540	4,460	1,675	617
1981										
JAN	60,997	16,210	19,818	7,922	17,047	7,914	3,270	3,174	1,133	337
FEB	59,438	15,250	19,856	7,993	16,339	8,363	3,100	3,564	1,124	575

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1979											
NOV	116	76	40	102	4,493	27	1,004	29	1,391	46	2,098
DEC	79	50	29	91	4,117	20	769	31	1,531	40	1,817
1980											
JAN	90	66	24	100	4,534	31	1,142	39	1,956	30	1,436
FEB	91	63	28	71	3,153	21	753	26	1,301	24	1,099
MAR	101	61	40	74	3,371	18	696	27	1,329	29	1,346
APR	90	58	32	76	3,473	20	746	23	1,149	33	1,578
MAY	101	76	25	56	2,608	13	483	17	848	26	1,277
JUN	105	78	27	50	2,273	13	502	15	741	22	1,030
JUL	138	99	39	63	2,904	20	823	16	817	27	1,264
AUG	139	89	50	70	3,389	23	958	17	944	30	1,487
SEP	136	76	60	94	4,592	23	945	30	1,624	41	2,023
OCT	115	59	56	95	4,580	24	990	21	1,133	50	2,457
NOV	90	48	42	79	3,824	18	725	21	1,135	40	1,964
DEC	95	50	45	82	3,995	20	836	18	954	44	2,205
1981											
JAN	70	46	24	62	2,895	14	542	18	917	30	1,436
FEB	74	49	25	50	2,504	13	510	13	745	24	1,249

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA					FHLMC			GNMA	
	4-Month Commitments				12 Month Convert Standby	Comm.	Purc.	Sold	Pass-Through Securities	
	FHA/VA Bid	FHA/VA Accept	Conventional Bid	Conventional Accept					Applications	Issued
1980										
MAR	1,267	426	919	240	242	186	193	106	5,124	1,125
APR	494	199	135	66	85	189	231	200	4,509	1,778
MAY	609	214	280	109	62	491	176	391	5,281	1,127
JUN	603	267	170	76	92	577	225	230	6,627	1,320
JUL	1,255	506	229	141	72	702	440	288	5,322	1,874
AUG	1,347	775	430	219	112	476	495	320	4,936	2,215
SEP	1,268	741	348	210	102	218	521	275	6,850	1,807
OCT	584	344	108	64	100	221	398	193	7,757	2,255
NOV	331	176	82	69	214	180	231	88	2,277	1,613
DEC	309	137	85	54	180	126	285	48	3,575	1,569
1981										
JAN	275	122	32	30	78	203	152	168	3,656	1,300
FEB	199	115	118	79	41	294	174	94	2,231	1,306
MAR	197	139	149	98	67	768	148	128	3,297	1,046
APR	175	147	127	92	22	886	125	97	2,962	1,404
MAY	282	252	281	156	69	1,016	480	421	4,296	1,245

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1980									
MAR	259	91	46	121	24	4,272	1,201	1,585	1,486
APR	191	71	40	81	59	3,484	1,104	1,042	1,338
MAY	209	88	47	74	72	4,254	965	1,789	1,500
JUN	243	89	47	107	55	4,209	1,016	1,604	1,589
JUL	376	100	61	215	73	3,954	1,093	1,322	1,539
AUG	310	130	70	110	70	4,390	1,250	1,240	1,830
SEP	310	139	73	98	78	4,537	1,382	1,814	1,341
OCT	281	114	55	112	420	5,140	1,625	1,900	1,615
NOV	286	87	115	84	121	6,202	1,106	2,568	2,528
DEC	411	220	71	120	94	6,148	1,102	2,502	2,544
1981									
JAN	355	187	58	111	220	5,854	1,481	2,886	1,487
FEB	351	211	46	94	140	6,576	1,471	2,723	2,382
MAR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
APR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MAY	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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n.a.–Not available; p–Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields.

[4] Benchmark rates. Citicorp Real Estate, Inc.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

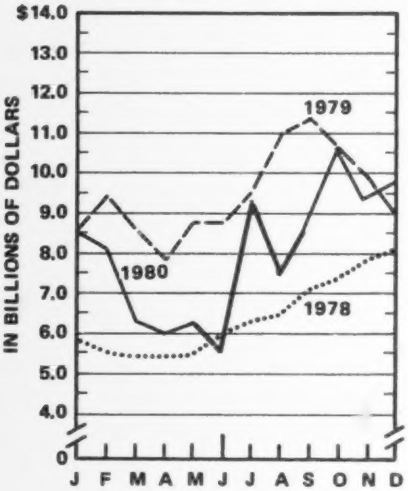
[8] Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

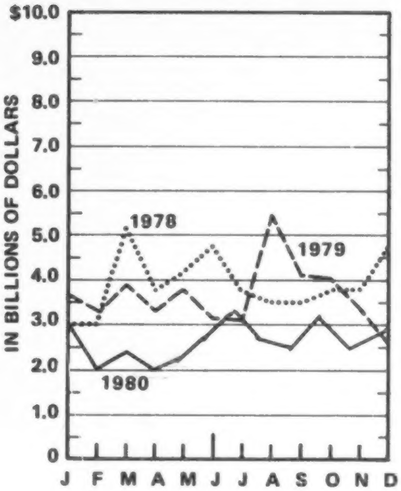
MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGES

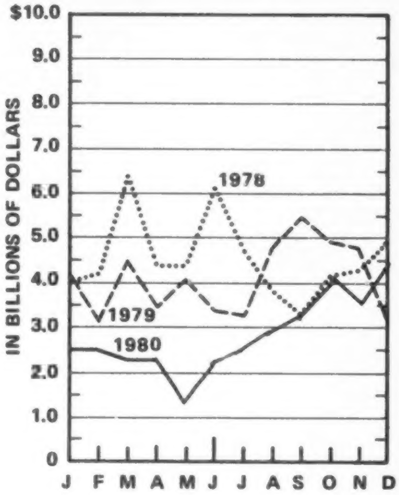
Inventory: Own Account



Commitments Issued

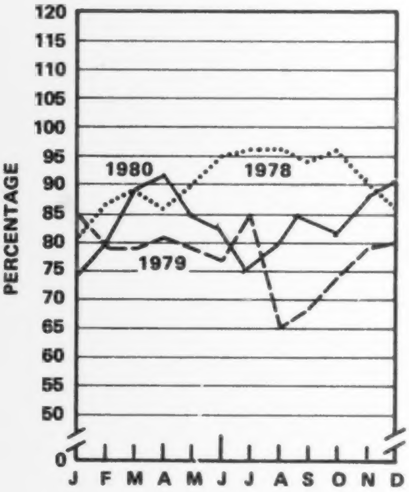


Commitments Received

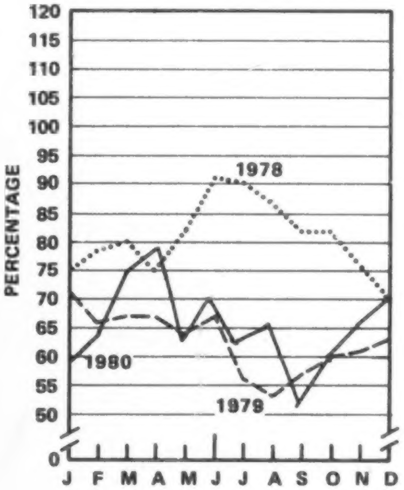


COVERAGE[1]

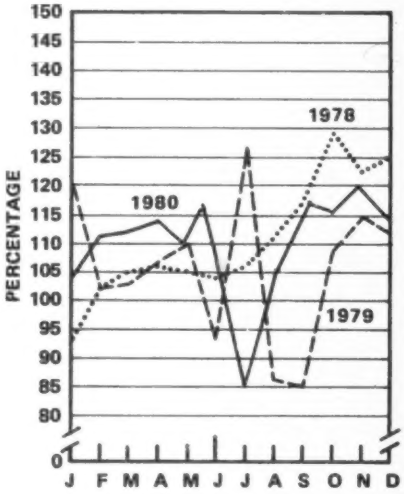
All Loans



1-To 4-Unit Loans



Income Property Loans



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[1] Percent coverage is outstanding long-term commitments received from investors, divided by the sum of outstanding end of month inventory and outstanding long-term commitments issued to borrowers, multiplied by 100.

Note: Data are estimates for all mortgage banking members of MBA. Estimates for the 600 mortgage banking members are based on a sample of firms representing 25 percent of the total long-term originations in the industry. The current month's data are preliminary and will be revised the following month. Once each year when new annual benchmark data for the industry becomes available, the monthly data are again revised to match the annual industry totals published in *Mortgage Banking: Loans Closed and Servicing Volume*. The latest benchmark revisions were made effective with the December 1978 benchmarks.

Source: MBA Economics Department.

MORTGAGE BANKING ACTIVITY
(All dollars amounts are in millions)[1]

LOANS CLOSED

Year and Month	LONG-TERM MORTGAGE LOANS													CONSTRUCTION LOANS
	Seasonally Adjusted				Not Seasonally Adjusted									
						1-4 Units				5 Units or more				
	Total[1]	1-4 Units	5 Units or More	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total
1980														
FEB	$ 2,900	$ 2,300	$ 580	$ 170	$2,740	$ 2,060	$ 740	$ 720	$ 600	$ 460	$ 350	$ 110	$ 220	$ 490
MAR	3,060	2,320	60	470	2,630	2,090	750	710	630	70	40	30	470	460
APR	2,340	1,770	60	610	2,300	1,660	530	470	660	100	20	80	540	510
MAY	2,450	1,740	70	680	2,080	1,610	580	470	560	40	0	40	430	690
JUN	2,620	1,820	400	520	2,760	1,970	950	660	360	420	110	310	370	540
JUL	2,950	2,470	80	480	3,020	2,530	1,170	910	450	100	90	10	390	1,960
AUG	3,030	2,830	60	310	3,160	2,780	1,180	1,060	540	60	60	0	320	1,150
SEP	2,950	2,270	370	390	3,280	2,460	1,000	880	580	440	440	0	380	380
OCT	2,760	2,160	470	460	3,030	2,350	880	780	690	240	170	70	440	500
NOV	2,300	1,680	190	440	2,280	1,690	580	550	560	190	160	30	400	300
DEC	2,620	1,900	380	250	3,040	2,050	750	660	640	480	410	70	510	780
1981														
JAN	3,130	1,590	1,990	340	2,860	1,480	540	460	480	1,130	750	380	250	290
FEB p	2,040	1,620	110	290	1,920	1,450	590	460	400	90	50	40	380	320
Year-to-date														
1980	$32,800	$25,700	$2,870	$5,110	$32,910	$25,520	$ 9,820	$ 8,580	$ 7,120	$2,680	$1,850	$ 830	$4,710	$ 8,320
1979	41,590	34,190	2,520	4,600	41,410	34,160	12,090	11,910	10,160	2,760	1,350	1,410	4,490	11,210
1978	37,300	30,920	2,560	3,980	37,770	31,150	10,040	11,000	10,110	2,450	920	1,530	4,170	7,520

OUTSTANDING END OF MONTH INVENTORY

COVERAGE[3]

Year and Month	LONG TERM MORTGAGE LOANS									CONSTRUCTION LOANS				COVERAGE[3]		
		1-4 Units				5 Units or More										
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	1-4 Units	5 Units or More	Non-Res.
1980																
FEB	$8,080	$6,440	$1,950	$1,570	$2,920	$ 550	$ 30	$ 520	$1,090	$2,360	$ 860	$560	$ 940	64%	136%	103%
MAR	6,310	4,720	1,220	1,100	2,400	590	40	550	1,000	2,430	930	580	920	75	137	104
APR	5,800	4,120	1,020	870	2,230	680	10	670	1,000	2,310	800	570	940	74	137	103
MAY	5,760	4,050	1,010	830	2,210	780	10	770	930	2,190	780	580	830	59	134	105
JUN	5,690	3,840	1,240	870	1,730	960	20	940	890	2,460	810	590	1,060	70	141	103
JUL	9,260	4,900	1,550	1,170	2,180	2,430	1,500	930	1,930	2,480	760	660	1,060	63	121	85
AUG	7,560	5,070	1,710	1,370	1,990	940	30	910	1,550	2,490	900	610	980	65	123	96
SEP	9,230	6,910	2,200	2,040	2,670	940	30	910	1,380	2,580	880	650	1,050	53	113	120
OCT	10,530	6,710	2,030	1,730	2,950	2,390	1,510	880	1,430	2,520	810	690	1,020	60	116	116
NOV	9,480	5,810	1,620	1,350	2,840	2,340	1,550	790	1,330	2,960	820	860	1,280	66	113	129
DEC	11,200	7,060	1,920	1,560	3,580	2,640	1,540	1,100	1,500	3,190	840	940	1,410	69	109	118
1981																
JAN	9,670	5,690	1,320	990	2,380	2,720	1,400	1,320	1,260	3,060	1,050	800	1,210	73	112	105
FEB p	7,640	5,130	1,420	1,060	2,610	1,320	20	1,300	1,190	3,210	1,020	730	1,460	76	125	106

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH							
	To Borrowers				From Investors				To Borrowers				From Investors			
	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.
1980																
FEB	$ 2,050	$ 1,820	$ 60	$ 170	$ 2,490	$ 2,210	$ 80	$ 200	$7,380	$3,780	$ 740	$2,860	$12,340	$6,530	$1,750	$4,060
MAR	2,380	2,040	90	250	2,260	1,830	170	260	7,120	3,680	710	2,730	11,980	6,330	1,780	3,870
APR	1,970	1,680	40	250	2,180	1,500	170	510	6,080	3,170	520	2,390	10,510	5,370	1,650	3,490
MAY	2,960	2,730	90	140	1,550	1,290	100	160	7,120	3,820	570	2,730	10,340	4,680	1,810	3,850
JUN	2,840	2,480	160	200	2,280	1,430	540	310	7,670	4,320	830	2,520	12,850	6,810	2,530	3,510
JUL	3,050	2,850	70	130	2,540	2,190	150	200	9,190	5,000	1,440	2,750	13,750	6,520	3,250	3,980
AUG	2,680	2,090	190	400	2,990	2,240	110	640	8,200	4,830	950	2,420	12,640	6,480	2,330	3,830
SEP	2,700	1,970	200	530	3,180	2,230	220	730	7,620	4,470	880	2,270	12,530	6,080	2,050	4,400
OCT	3,230	2,320	70	840	4,020	2,100	310	1,610	7,330	4,060	780	2,490	14,670	6,440	3,680	4,550
NOV	2,540	1,460	680	400	3,790	2,190	700	900	7,230	3,920	1,160	2,150	14,770	6,380	3,960	4,430
DEC	3,540	1,840	810	890	4,840	1,750	140	1,950	7,620	4,010	1,220	2,390	16,430	7,630	4,210	4,590
1981																
JAN	3,270	2,750	250	300	2,450	1,920	270	260	8,510	4,210	1,570	2,730	16,210	7,230	4,790	4,190
FEB p	3,100	2,640	170	290	4,490	3,870	300	320	9,140	5,050	1,600	2,490	15,250	7,690	3,660	3,900
Year-to-date																
1980	$32,930	$25,970	$2,560	$4,400	$34,620	$22,910	$4,020	$7,690								
1979	44,430	33,110	2,220	9,100	49,350	35,280	3,190	10,880								
1978	46,920	32,930	1,690	12,300	54,830	37,690	2,710	14,430								

[1] Total is seasonally adjusted separately from components. Total, therefore, may not equal the sum of the parts.

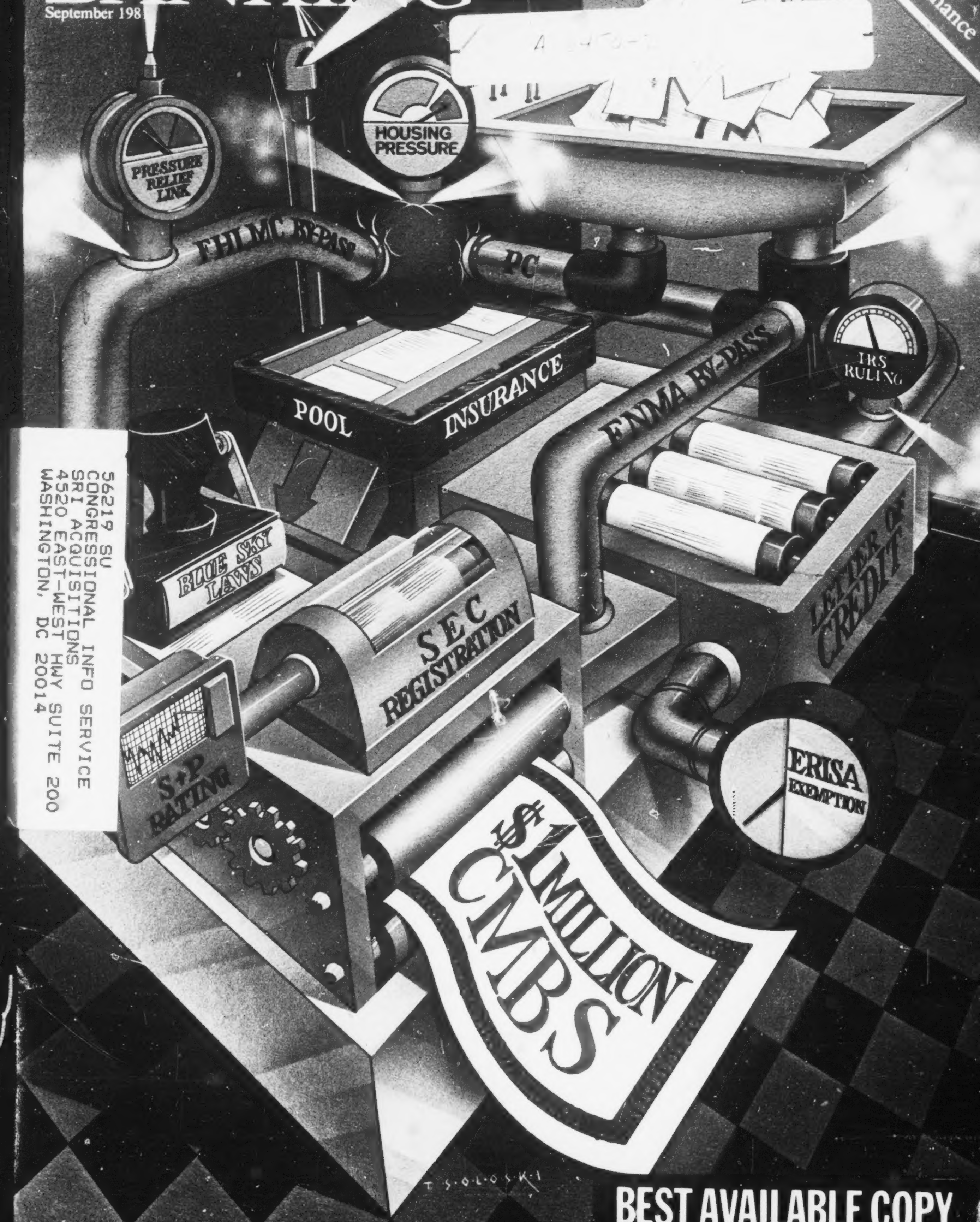
[2] Percent coverage is outstanding long-term commitments, received from investors, divided by the sum of outstanding end of month inventory and outstanding long-term commitments issued to borrowers, multiplied by 100.

Note: All series labeled 'non-residential' are also inclusive of farm data.

MORTGAGE BANKING

September 198

The Magazine of Real Estate Finance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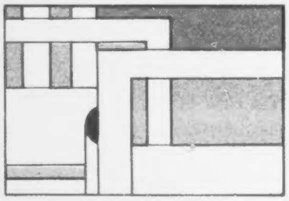
Volume 41 No. 12
September 1981

ERISA: Affects
Mortgage Pool
Investment Trusts
Page 28

Fast-Pay
GNMAs
Page 37



MBS: Update
Page 48

GNMAs: Success Story 12
Ronnie J. Wynn, CMB

Finding New Markets for Mortgages 18
William B. Ross

Public Pension Funds Discover CMBS 23
Stephen L. Joseph

ERISA: How It Affects Mortgage Pool Investment Trusts 28
Susan S. Spagnola and H. W. Taylor

Fast-Pay GNMAs: Fact or Fallacy? 37
Dexter Senft

The Private Placement Market for MBS 44
Robert F. Tobin

MBS: Regulatory and Legislative Update 48
Betsy Qutb

Departments

Starts 5
Association 5
Industry 7
People 55
Mortgage Market Trends 59
Classified Advertisements 72
Advertisers Index 75

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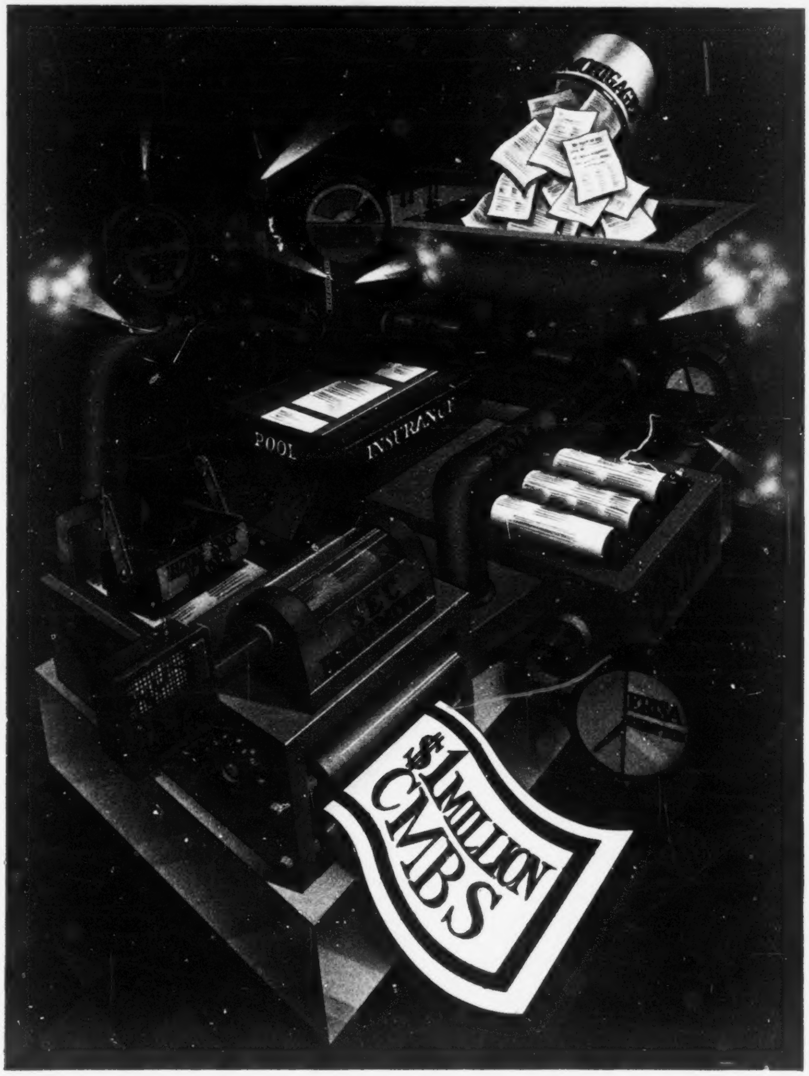
FINDING NEW MARKETS FOR MORTGAGES



William B. Ross

Despite the depressed housing market of the last several years, the housing finance industry has witnessed a watershed in innovative ways to package mortgages for potential investors.

Through these innovations—particularly the many forms of conventional mortgage-backed securities—mortgage originators have been able to find "nontraditional" buyers for their mortgage assets. When the traditional secondary mortgage market dries up, mortgage bankers gladly welcome these new investors. But mortgage-backed securities offer more than a simple alternative to secondary market sales. They offer mortgage lenders the vast potential to tap the nation's securities markets for mortgage funds.

The securities markets will be an essential source of funds to fuel the housing demand boom of the 1980s. Only by attracting investors who have customarily shied away from mortgages—pension funds, bank trust funds, insurance companies, municipal bond buyers and the like—will the industry be able to satisfy its customers.

The success of mortgage lenders in reaching the securities markets with their wares will depend on several factors. First, prospective investors will have to be made eligible to purchase mortgages in some form. In an era of tight government regulation, many investors are legally constrained in the types of securities they may add to their portfolios. Until recently, for example, pension funds were effectively prohibited from investing in private mortgage securities. This is primarily an advocacy battle that must be fought by each investor group with the aid of mortgage lenders.

The second obstacle in the path of mortgage lenders seeking an outlet in the capital markets is the lack of flexibility concerning types of mortgages in a package and types of issuers behind these mortgages. In an efficient, well-developed mortgage securities market, mortgage bankers, thrifts, and commercial banks will be fully represented. What's more, various mortgage forms such as adjustable rate mortgages, graduated payment mortgages, second mortgages, second home pools, and others should find interested buyers.

Finally, the general economic environment will have to improve and stabilize for mortgages to become a widely attractive investment. The period from 1977 to 1981, when many new mortgage vehicles emerged, has provided the most adverse conceivable environment for investment in mortgage securities. With yields on alternative investments exceeding 16 percent, there is little pressure on investors to try something new such as privately packaged mortgage securities.

Market development

How did the current market for mortgage-related securities develop? Certainly, the federal government took the initiative by launching the Government National Mortgage Association (GNMA). The market for Ginnie Maes has surpassed $120 billion; clearly, the concept has gained investor acceptance. But this process did not take place overnight. In the early years of the Ginnie Mae program, roughly from 1970 to 1973, the securities moved relatively slowly as investment managers became acquainted with the quirks of investing in mortgages. By 1974 a broad array of investor groups was participating in the Ginnie Mae boom.

Stakeholders in the mortgage finance business, including mortgage insurers as well as all types of mortgage lenders, were not standing idly by as the government showed the way. The problem was that a government program had a big advantage in that as government securities, Ginnie Maes are automatically exempt from many regulatory and legislative controls on investors. The FHLMC-PC program was also able to avoid many federal legislative hurdles that a private initiative would certainly have faced. As a result, many classes of investors were instantly eligible to buy Ginnie Maes who could not have bought private mortgage securities. This is *still* true.

Ginnie Mae and Freddie Mac have also enjoyed the security bestowed by a federal government guarantee. Even investors who were eligible to purchase mortgage securities felt some anxiety about an entirely new type of security. A government guarantee goes a long way toward allaying these fears.

The breakthrough in the private enterprise side of the mortgage industry came in 1977 when the Bank of America issued its pioneering $150 million mortgage-backed security issue. This jumbo issue opened the door for the sale of conventional mortgages packaged in the form of a security—without a government guarantee.

To make this issue possible, Bank of America faced significant regulatory hurdles. For several years before the 1977 issue, Bank of America had to bring together the loan servicing agreements, get approval on the mortgage insurance package, and obtain tax rulings from the Internal Revenue Service. This effort laid the groundwork for all future mortgage-backed pass-through certificates.

Mortgage-backed securities . . . offer mortgage lenders the vast potential to tap the nation's securities markets for mortgage funds.

The problem of gaining regulatory approval for investors to buy this type of security is a more complex and lengthy process. Federal, state, and local government units, as well as regulatory agencies, determine what many institutions can buy. The process begins with investor interest. An insurance company, for example, might perceive that mortgage securities can meet its investment objectives. The company could express interest in these securities, but its investments are regulated by a state insurance commission. And the commission's regulations are formed by laws enacted in the state legislature. Thus, insurance industry investment in mortgage securities hinges on approval by both state legislatures and insurance commissions throughout the United States. Banks, pension funds, and other investors face similar constraints.

To give some sense of the magnitude of such an endeavor, let me cite the experience of MGIC. In 1958, Max Karl, founder of MGIC, began a drive to gain approval for the issuance of private mortgage insurance on a state-by-state basis. The company, and the private mortgage insurance industry that grew around it, faced legislatures, state banking authorities, state insurance regulators, and investment regulators in every state. Not until 1972 was private mortgage insurance allowed in all fifty states.

Unlike government-backed programs, privately issued and insured mortgage securities do not have a big friend—the government—helping gain eligibility for investor dollars.

A major gain was made recently on the regulatory front. In November 1980, the Department of Labor determined that private pension plans subject to the Employee Retirement Income Security Act (ERISA) should *not* be effectively prohibited from investing in home mortgages.

The class exemption for mortgage backed securities from the ERISA prohibitions is one major development. A second is the recent increase in activity by state employee pension funds. For example, in June of this year, New York state invested $85 million of retirement funds in conventional residential mortgages through mortgage conduits. This move was heralded in the national news media as a significant commitment to state residents who were finding it impossible to get mortgage money.

Similar issues have been closed in Texas, Massachusetts, Connecticut, and North Carolina, and are underway in Kansas, Alabama, Michigan, and South Carolina and in a major U.S. city, Philadelphia. Other conduit deals are pending in Connecticut, Oregon, Washington, and Alaska.

How did this new special-purpose financial vehicle come about? First, persistent hard selling by mortgage professionals over a period of years helped convince these investors that home mortgages could satisfy their financial goals. Second, state legislatures have reacted favorably when the merits of these conduits were fully explained. And third, thanks to the evolution of sophisticated mortgage securities in the past decade, this investment vehicle was available with attractive yields and high quality.

Flexibility in mortgage securities

One of the primary reasons why a mortgage security is attractive to a state employee pension fund is the flexibility of the pass-through instrument. Just two years after the Bank of America issue, in the summer of 1979, the first "conduits" appeared. The concept behind a conduit was to separate the functions of the loan originator/servicer from the issuer. The purpose of this separation was

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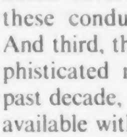

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Conventional Mortgage-Backed Securities Issued by Years

(Millions of dollars)

	1976	1977	1978	1979	1980	1981 First 7 Mos.	Total
Pass-Through Certificates: (Public Offerings)	—	225.6	756.8	445.6	213.3	—	1,641.3
Pass-Through Certificates: (Private Placements)	—	—	133.2	391.4	561.5	394.5	1,480.5
Pass-Through Bonds: (Public Offerings)	—	—	—	—	35.0	93.6	128.6
Pass-Through Bonds (Private Placements)	22.0	5.9	60.0	33.4	1.4	73.4	196.1
Participations With Pool Insurance (Private only)	—	12.0	60.2	424.1	18.9	—	515.2
Total	22.0	243.5	1,010.1	1,294.5	830.1	561.5	3,961.7

Source: MGIC estimates, based on data supplied by investment bankers and other mortgage insurance companies.

to help bridge the gap between the securities scale demanded by investors and the normal scale of most mortgage originators.

Basically, a conduit could bring together loans from multiple mortgage lenders and create a large security out of the pool. For mortgage bankers, the main advantage is obvious: the conduit enables the average lender to participate in the securities market. Investors who would never look at individual home loans could purchase a convenient package. What's more, as a portfolio of mortgages, the conduit pool could offer diversification among types of lenders, geographic areas, and types of loans.

The appeal of area-specific mortgage conduit securities to employee pension funds is just one example of how mortgage securities can be designed to meet individual investor needs. Innovative ways of packaging mortgages are just evolving. For example, in Connecticut, Peoples Savings Bank in Bridgeport is serving as a "lead lender" on behalf of an investor interested in purchasing local mortgages. Under the "lead lender" concept, the investor selects the lead lender by shopping among banks on the basis of price and services in packaging a mortgage security. Through this medium, large banks as well as investment bankers can get involved in mortgage securities.

Other new securities display diversity in the types of mortgage originators represented in the mortgage security. A "multiple trade association" type of conduit assembles a security by pooling mortgages from banks, mortgage bankers, and thrifts. This type of package is especially attractive to governmental units that want to remain neutral among types of mortgage lenders. The North Carolina Mortgage Investment Corporation has been established to perform this role in North Carolina.

Other prominent agents for assembling mortgages for securities packages are the captive finance subsidiaries of home builders. Pulte Home Corporation, U.S. Home Corporation, Evans Corporation, and others have been active in this area.

Clearly, mortgage insurance companies are not the only assemblers of mortgage pools. New players enter the field constantly as the mortgage security concept broadens and becomes more flexible.

Additional security

A vital element in any mortgage security is the security above and beyond the mortgages themselves. The federal government backs its issues; similarly, private mortgage insurers have put together pool coverages to back most of the mortgage-backed pass-throughs issued to date. This insurance coverage can have as many as four parts. First, primary mortgage insurance insures the top 20 or 25 percent of any high loan-to-value ratio loans in the package. Second, a pool insurance policy covers a percentage—usually five or ten—of the total initial principal balances of the mortgage pool. Third, special hazard insurance covers the investor against risks not normally included in the homeowners' policies. Fourth, there may be coverage to assure that the loan servicer or servicers will perform as agreed upon.

The mortgage security field has seen some important innovations in how these risks are covered. Self-insurance is one alternative for institutions having a AA or better rating. Both Bank of America and Citicorp have isued mortgage-backed securities without outside insurance protection by using their own bank letter of credit.

Another alternative coverage is overcollateralization. Under this concept, the security might contain from 6 to 10 percent more in mortgage amounts than the face value of the security. This excess collateral provides a cushion against loss.

The mortgage-backed security also takes on a hybrid form in the instance of mortgage-backed bonds with pass-through payment characteristics. These issues have the technical characteristics of a bond—the underlying mortgages remain on the balance sheet of the originators—but the economic characteristics of pass-throughs. Essentially, they are self-amortizing bonds that return a portion of the principal along with each interest payment.

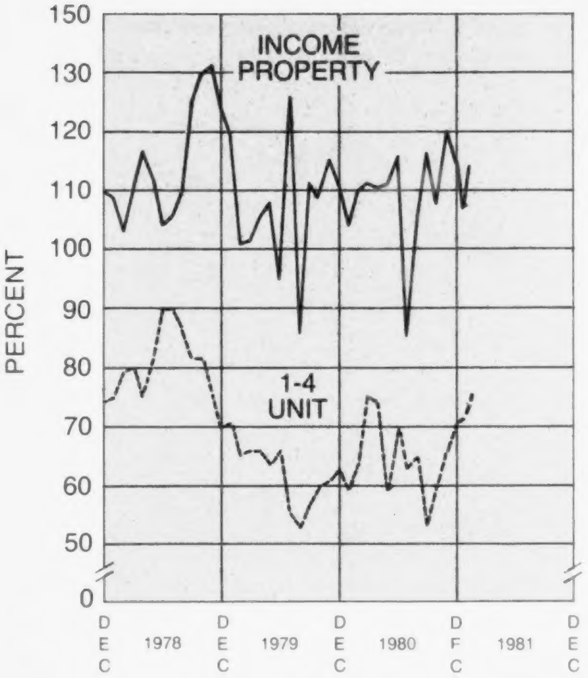
Economic backdrop

While the forms of mortgage-related securities have proliferated, the volume of issues has fallen victim to adverse economic conditions. When the first pass-through certificate was issued in 1977, interest rates hovered around 8 to 9 percent. Comparable rates today exceed 16 percent. In summer 1977, GNMA yields were 8 percent; in summer 1981, they were over 15 percent.

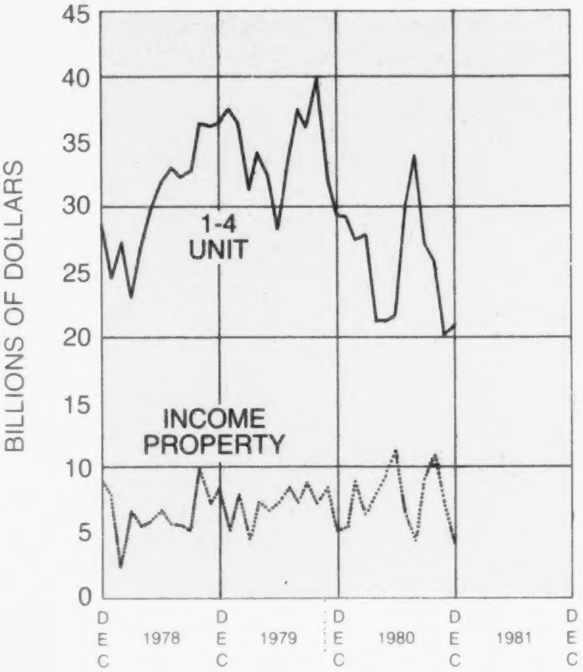
Despite these abysmal conditions, the market has witnessed volumes of $1.66 billion in publicly issued pass-through certificates, $1.18 billion in privately placed pass-throughs, and $236 million in other forms of privately issued mortgage securities—all in addition to the multi-billion dollar Ginnie Mae and Freddie Mac markets.

The pattern has not been one of powerful growth year by year, but privately issued mortgage-related securities have established a significant foothold in the nation's capital markets. As interest rates moderate, these securities can be expected to increase in appeal to and acceptance by investors. The resourcefulness of the mortgage industry in creating new types of securities despite a down market attests to the essential validity of the mortgage-related securities concept. □

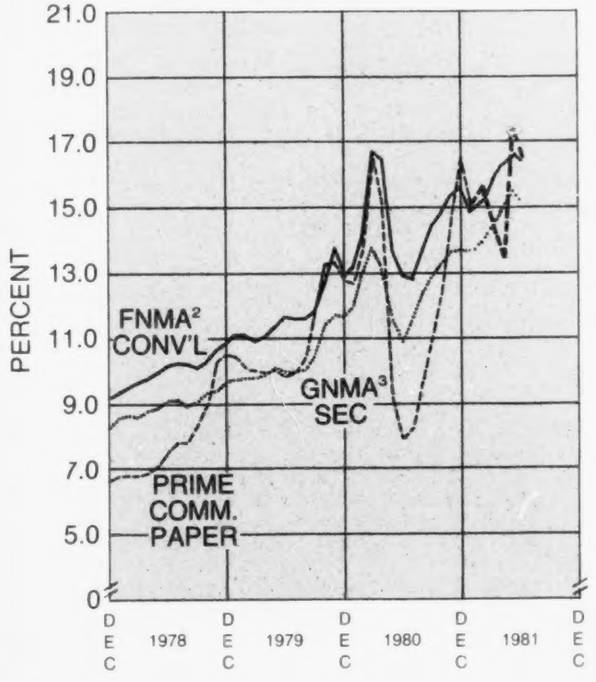
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE[1]



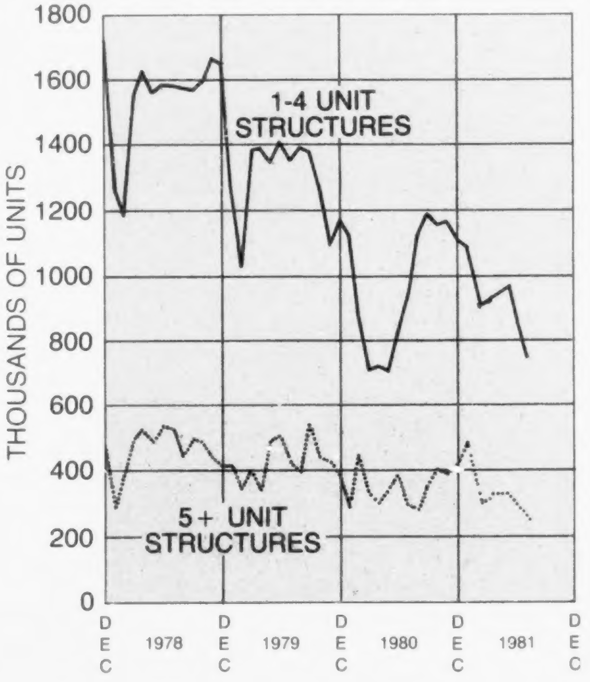
MORTGAGE BANKERS LONG-TERM MORTGAGE LOANS CLOSED[4]



SELECTED YIELDS



HOUSING STARTS[4]



FOOTNOTES

1 OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.

2 WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.

3 SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY.

4 SEASONALLY ADJUSTED ANNUAL RATES.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION.

MBA—ECONOMICS DEPARTMENT

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MORTGAGE MARKET TRENDS—SEPTEMBER 1981

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
APR	77	54	23	789	536	253	96	71	25	1,030	728	302
MAY	77	56	21	825	576	249	92	73	19	913	714	199
JUN	101	69	32	1,078	721	357	116	84	32	1,223	832	391
JUL	113	84	29	1,236	900	336	119	94	25	1,249	951	298
AUG	116	86	30	1,361	988	373	129	104	25	1,416	1,139	277
SEP	143	94	49	1,564	1,060	504	138	107	31	1,545	1,189	356
OCT	127	89	38	1,333	953	380	154	112	42	1,561	1,157	404
NOV	95	65	30	1,355	953	402	112	82	30	1,563	1,167	396
DEC	88	56	33	1,235	869	366	96	65	31	1,535	1,105	430
1981												
JAN	70	47	23	1,228	857	371	82	57	25	1,615	1,138	477
FEB	73	49	24	1,165	780	385	72	56	18	1,214	903	311
MAR	100	70	31	1,153	786	367	108	80	28	1,289	939	350
APR	111	79	31	1,186	811	375	124	93	31	1,340	993	347
MAY	101	69	32	1,167	764	403	110	84	26	1,158	870	288
JUN	95	66	29	963	668	295	104	80	24	1,021	768	253
6 months												
1981	550	380	170				600	450	150			
1980	488	341	147				542	398	144			
1979	799	587	212				868	670	198			
1978	923	682	241				986	765	221			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res
APR	113,411	42,980	17,723	52,708
MAY	108,104	38,057	17,131	52,916
JUN	104,786	35,750	16,150	52,886
JUL	101,629	37,263	14,922	49,444
AUG	105,162	40,380	15,647	49,135
SEP	109,738	44,448	16,286	48,974
OCT	113,773	48,661	14,938	50,174
NOV	120,271	50,994	18,198	51,079
DEC	125,692	52,954	18,181	54,557
1981				
JAN	134,067	56,117	19,288	58,662
FEB	132,363	53,925	20,488	57,950
MAR	131,250	51,759	21,011	58,480
APR	131,000	52,047	20,858	58,095
MAY	124,502	49,378	18,327	56,797
JUN	120,157	45,696	18,118	56,343

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
APR	224	36	361	10.2
MAY	219	43	349	8.1
JUN	233	48	342	7.2
JUL	275	55	339	6.2
AUG	286	60	332	5.6
SEP	293	48	339	7.1
OCT	282	44	343	7.8
NOV	210	37	344	9.2
DEC	187	34	337	10.2
1981				
JAN	166	36	331	9.3
FEB	175	40	324	8.1
MAR	220	48	321	6.7
APR	233	42	325	7.8
MAY	226	45	319	7.1
JUN	248	38	313	8.3
6 months				
1981	1,268	249		
1980	1,348	257		
1979	1,886	387		
1978	1,956	437		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
APR	8	12	37	20	86	116	385	202	10	15	48	23	130	156	487	257
MAY	9	13	36	19	98	122	399	206	12	15	45	21	129	122	459	203
JUN	11	15	48	27	114	142	534	288	13	21	58	24	120	179	679	245
JUL	12	20	50	32	119	208	566	343	12	20	60	27	194	193	664	278
AUG	11	19	53	33	117	213	650	381	13	21	63	32	128	224	694	370
SEP	14	26	69	35	143	242	770	409	17	30	61	30	216	288	679	362
OCT	14	26	56	31	139	247	597	350	12	34	75	32	107	310	782	362
NOV	10	17	44	25	124	225	639	367	10	23	55	24	111	305	783	364
DEC	9	13	52	22	111	209	623	292	9	13	52	22	131	259	793	352
1981																
JAN	5	6	40	18	102	190	641	295	5	8	50	18	163	329	887	281
FEB	5	7	42	19	124	174	598	269	3	6	45	18	85	189	677	263
MAR	10	15	51	24	121	194	562	276	8	15	63	22	124	217	687	261
APR	12	16	53	30	139	154	576	317	10	19	67	28	119	205	709	307
MAY	11	14	47	30	119	143	553	352	12	19	54	25	125	172	597	264
JUN	12	14	42	27	111	136	440	276	11	18	51	23	99	155	540	227
6 months																
1981	55	72	275	148					49	85	330	134				
1980	50	69	241	138					50	76	281	135				
1979	80	145	327	246					78	166	377	247				
1978	80	179	300	293					83	209	417	278				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
APR	953	588	365	135	93	42
MAY	918	570	348	120	87	33
JUN	900	566	334	131	89	42
JUL	890	572	318	125	82	43
AUG	887	576	311	128	96	32
SEP	905	601	304	116	81	35
OCT	935	620	315	120	89	31
NOV	932	632	312	114	81	33
DEC	918	657	311	129	99	30
1981						
JAN	892	570	313	88	69	18
FEB	869	551	318	93	72	22
MAR	867	554	313	105	74	31
APR	882	564	317	111	80	31
MAY	893	571	322	97	75	22
JUN	875	564	311	122	87	35
6 months						
1981				616	457	159
1980				768	544	228
1979				868	666	202
1978				824	659	165

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[1]	CONSTRUCTION LOANS ALL TYPES	FNMA		GNMA Current Securities Yield[3]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				FMS Auction Yields on 4 mo. Commitments[2]			Aaa Utility New Issue	U.S. Gov't		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't
	FHA New	Conventional		Conventional				FHA/VA	Conv.			10-yr	26-wk			
		New	Existing	New	Existing											
1980																
APR	13.45	15.55	15.55	13.03	13.57	n.a.		14.670	16.451	13.17	12.90	11.47	13.618	15.78	55	170
MAY	11.99	13.20	13.20	13.67	14.12	13.000-15.000	18.32	12.855	13.535	11.54	11.53	10.18	9.149	9.49	46	136
JUN	11.85	12.45	12.45	12.69	13.31	12.250-12.750		12.360	12.946	10.89	10.96	9.78	7.218	8.27	89	111
JUL	12.39	12.45	12.45	12.48	12.61	12.500-13.500		12.630	12.807	11.53	11.60	10.25	8.101	8.41	79	128
AUG	13.54	13.25	13.25	12.25	12.26	13.000-14.500	13.16	13.873	13.663	12.33	12.32	11.10	9.443	9.57	122	123
SEP	14.26	13.65	13.70	12.36	12.38	13.000-14.000		14.819	14.450	12.86	12.74	11.51	10.546	10.97	152	135
OCT	14.38	14.10	14.10	12.60	12.64	13.500-14.500		14.965	14.791	13.24	13.18	11.75	11.566	12.52	120	149
NOV	14.47	14.70	14.70	13.08	13.29	n.a.	15.31	15.530	15.280	13.69	13.85	12.68	13.612	15.18	62	101
DEC	14.08	15.05	15.05	13.28	13.58	n.a.		15.192	15.568	13.71	14.51	12.84	14.770	18.07	43	87
1981																
JAN	14.23	14.95	14.95	13.28	13.91	n.a.		14.870	14.923	13.65	14.12	12.57	13.883	16.58	11	108
FEB	14.79	15.10	15.10	13.54	14.13	n.a.	19.40	15.261	15.108	14.16	14.90	13.19	14.134	15.49	11	103
MAR	15.04	15.25	15.25	14.02	14.34	n.a.		15.590	15.337	14.15	14.71	13.12	12.983	13.94	33	103
APR	15.91	15.70	15.75	14.15	14.48	n.a.		16.652	15.674	15.05	15.68	13.68	13.434	14.56	23	137
MAY	16.33	16.35	16.40	14.15	14.64	n.a.	19.09	17.255	16.434	15.55	15.81	14.10	15.334	17.56	52	145
JUN	16.31	16.40	16.45	14.67	14.88	n.a.		16.166	16.305	15.35	14.76	13.47	13.947	16.32	155	188

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos
1979																				
DEC	15,040	3,338	5,223	5,018	1,461	11,861	2,552	4,584	3,338	427	792	130	270	251	141	3,346	655	369	1,429	893
1980																				
JAN	12,134	2,588	4,070	4,073	1,403	8,731	2,271	3,589	2,703	168	588	82	208	204	94	2,816	236	273	1,166	1,141
FEB	11,975	2,733	4,281	3,802	1,159	8,469	2,055	3,805	2,361	248	919	454	204	148	113	2,587	224	272	1,293	798
MAR	14,187	2,632	5,487	4,509	1,559	10,372	2,085	4,955	2,899	433	517	72	224	135	86	3,298	475	308	1,475	1,040
APR	12,363	2,297	4,707	4,111	1,248	8,868	1,662	4,216	2,749	241	614	94	218	137	165	2,881	541	273	1,225	842
MAY	9,852	2,080	3,536	3,301	935	6,860	1,606	2,996	2,051	207	429	41	220	102	66	2,563	433	320	1,148	662
JUN	10,873	2,830	4,076	2,872	1,095	7,351	1,910	3,533	1,794	114	1,099	596	248	167	88	2,423	324	295	911	893
JUL	12,555	3,020	5,468	2,947	1,120	9,560	2,530	4,885	2,041	104	615	100	313	94	108	2,380	390	270	812	908
AUG	15,579	3,160	7,722	3,710	1,167	12,675	2,780	7,089	2,732	74	626	60	276	162	128	2,458	320	357	816	965
SEP	17,767	3,360	8,597	4,942	868	14,026	2,490	7,818	3,635	83	1,007	440	364	116	87	2,734	430	415	1,191	698
OCT	17,746	3,030	8,423	5,151	1,142	13,806	2,350	7,616	3,786	72	926	240	327	183	176	2,996	440	480	1,182	894
NOV	13,249	2,280	5,913	3,923	1,133	9,903	1,690	5,316	2,847	50	670	190	226	142	112	2,676	400	371	934	971
DEC	14,623	3,040	6,035	4,106	1,442	9,911	2,050	5,277	2,563	21	1,190	480	272	237	201	3,522	510	486	1,306	1,220
1981																				
JAN	10,654	2,860	3,831	3,039	924	6,535	1,480	3,392	1,633	30	1,569	1,130	151	205	83	2,550	250	288	1,201	811
FEB	9,045	1,920	3,422	2,795	908	5,952	1,450	2,929	1,543	30	519	90	218	129	82	2,574	380	275	1,123	796

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos
1979										
NOV	79,324	14,824	23,714	11,315	29,471	12,023	3,415	4,741	2,407	1,460
DEC	73,350	13,473	21,467	10,504	27,906	8,533	2,608	3,248	1,892	785
1980										
JAN	67,753	11,983	20,502	8,929	26,339	8,579	2,984	3,510	1,545	540
FEB	68,818	12,333	21,359	9,717	25,417	9,400	2,046	5,017	1,637	700
MAR	66,122	11,974	20,424	9,215	24,509	9,924	2,372	4,782	1,850	920
APR	60,999	10,500	18,597	8,286	23,616	7,126	1,964	3,147	1,276	739
MAY	58,833	10,336	17,762	8,011	22,724	7,051	2,958	2,802	901	390
JUN	58,058	9,960	18,848	7,651	21,599	9,046	2,850	4,580	1,250	366
JUL	63,525	13,750	21,310	7,769	20,696	12,568	3,050	7,128	1,626	764
AUG	65,653	12,640	23,876	9,032	20,105	14,951	2,680	9,510	2,076	685
SEP	66,681	12,800	24,476	9,230	20,175	15,381	2,500	8,858	2,676	1,347
OCT	66,925	14,670	23,641	8,899	19,715	13,557	3,230	7,305	2,142	880
NOV	65,262	14,770	22,790	8,629	19,063	10,048	2,540	5,146	1,608	754
DEC	63,812	16,430	20,857	8,582	17,943	10,292	3,540	4,460	1,675	617
1981										
JAN	60,997	16,210	19,818	7,922	17,047	7,914	3,270	3,174	1,133	337
FEB	59,438	15,250	19,856	7,993	16,339	8,363	3,100	3,564	1,124	575

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/VA	Private	Units	Amt	Units	Amt	Units	Amt	Units	Amt
1979											
NOV	116	76	40	102	4,493	27	1,004	29	1,391	46	2,098
DEC	79	50	29	91	4,117	20	769	31	1,531	40	1,817
1980											
JAN	90	66	24	100	4,534	31	1,142	39	1,956	30	1,436
FEB	91	63	28	71	3,153	21	753	26	1,301	24	1,099
MAR	101	61	40	74	3,371	18	696	27	1,329	29	1,346
APR	90	58	32	76	3,473	20	746	23	1,149	33	1,578
MAY	101	76	25	56	2,608	13	483	17	848	26	1,277
JUN	105	78	27	50	2,273	13	502	15	741	22	1,030
JUL	138	99	39	63	2,904	20	823	16	817	27	1,264
AUG	139	89	50	70	3,389	23	958	17	944	30	1,487
SEP	136	76	60	94	4,592	23	945	30	1,624	41	2,023
OCT	115	59	56	95	4,580	24	990	21	1,133	50	2,457
NOV	90	48	42	79	3,824	18	725	21	1,135	40	1,964
DEC	95	50	45	82	3,995	20	836	18	954	44	2,205
1981											
JAN	70	46	24	62	2,895	14	542	18	917	30	1,436
FEB	74	49	25	50	2,504	13	510	13	745	24	1,249

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA					FHLMC			GNMA	
	4-Month Commitments				12 Month Convert Standby	Comm	Purc	Sold	Pass-Through Securities	
	FHA/VA Bid	FHA/VA Accept	Conventional Bid	Conventional Accept					Applications	Issued
1980										
APR	494	199	135	66	85	189	231	200	4,509	1,778
MAY	609	214	280	109	62	491	176	391	5,281	1,127
JUN	603	267	170	76	92	577	225	230	6,627	1,320
JUL	1,255	506	229	141	72	702	440	288	5,322	1,874
AUG	1,347	775	430	219	112	476	495	320	4,936	2,215
SEP	1,268	741	348	210	102	218	521	275	6,850	1,807
OCT	584	344	108	64	100	221	398	193	7,757	2,255
NOV	331	176	82	69	214	180	231	88	2,277	1,613
DEC	309	137	85	54	180	126	285	48	3,575	1,569
1981										
JAN	275	122	32	30	78	203	152	168	3,656	1,300
FEB	199	115	118	79	41	294	174	94	2,231	1,306
MAR	197	139	149	98	67	768	148	128	3,297	1,046
APR	175	147	127	92	22	886	125	97	2,962	1,404
MAY	282	252	281	156	69	1,016	480	421	4,296	1,245
JUN	298	265	307	224	204	1,309	139	94	4,380	1,382

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res		Total	1-4 Units	5+ Units	Non-res
1980									
APR	191	71	40	81	59	3,484	1,104	1,042	1,338
MAY	209	88	47	74	72	4,254	965	1,789	1,500
JUN	243	89	47	107	55	4,209	1,016	1,604	1,589
JUL	376	100	61	215	73	3,954	1,093	1,322	1,539
AUG	310	130	70	110	70	4,390	1,250	1,240	1,830
SEP	310	139	73	98	78	4,537	1,382	1,814	1,341
OCT	281	114	55	112	420	5,140	1,625	1,900	1,615
NOV	286	87	115	84	121	6,202	1,106	2,568	2,528
DEC	411	220	71	120	94	6,148	1,102	2,502	2,544
1981									
JAN	355	187	58	111	220	5,854	1,481	2,886	1,487
FEB	351	211	46	94	140	6,576	1,471	2,723	2,382
MAR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
APR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MAY	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
JUN	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a. Not available; p Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series.

[2] Reflects cumulative total through the latest month for each column.

[3] Secondary market gross yields.

[4] Benchmark rates. Citicorp Real Estate, Inc.

[5] Federal Reserve's weighted average interest rate for Commercial Banks.

[6] Weighted average gross yields for accepted bids.

[7] Survey of three New York security dealers. Securities for immediate delivery.

[8] Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

MORTGAGE BANKING ACTIVITY
(All dollars amounts are in millions)

LOANS CLOSED

Year and Month	LONG-TERM MORTGAGE LOANS													CONSTRUCTION LOANS
	Seasonally Adjusted				Not Seasonally Adjusted									
						1-4 Units				5 Units or more				
	Total[1]	1-4 Units	5 Units or More	Non-Res.	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total
1980														
FEB	$ 2,900	$ 2,300	$ 580	$ 170	$2,740	$ 2,060	$ 740	$ 720	$ 600	$ 460	$ 350	$ 110	$ 220	$ 490
MAR	3,060	2,320	60	470	2,630	2,090	750	710	630	70	40	30	470	460
APR	2,340	1,770	60	610	2,300	1,660	530	470	660	100	20	80	540	510
MAY	2,450	1,740	70	680	2,080	1,610	580	470	560	40	0	40	430	690
JUN	2,620	1,820	400	520	2,760	1,970	950	660	360	420	110	310	370	540
JUL	2,950	2,470	80	480	3,020	2,530	1,170	910	450	100	90	10	390	1,960
AUG	3,030	2,830	60	310	3,160	2,780	1,180	1,060	540	60	60	0	320	1,150
SEP	2,950	2,270	370	390	3,280	2,460	1,000	880	580	440	440	0	380	380
OCT	2,760	2,160	470	460	3,030	2,350	880	780	690	240	170	70	440	500
NOV	2,300	1,680	190	440	2,280	1,690	580	550	560	190	160	30	400	300
DEC	2,620	1,900	380	250	3,040	2,050	750	660	640	480	410	70	510	780
1981														
JAN	3,130	1,590	1,990	340	2,860	1,480	540	460	480	1,130	750	380	250	290
FEB p	2,040	1,620	110	290	1,920	1,450	590	460	400	90	50	40	380	320
Year-to-date														
1980	$32,800	$25,700	$2,870	$5,110	$32,910	$25,520	$ 9,820	$ 8,580	$ 7,120	$2,680	$1,850	$ 830	$4,710	$ 8,320
1979	41,590	34,190	2,520	4,600	41,410	34,160	12,090	11,910	10,160	2,760	1,350	1,410	4,490	11,210
1978	37,300	30,920	2,560	3,980	37,770	31,150	10,040	11,000	10,110	2,450	920	1,530	4,170	7,520

OUTSTANDING END OF MONTH INVENTORY

COVERAGE[2]

Year and Month	LONG TERM MORTGAGE LOANS									CONSTRUCTION LOANS				COVERAGE[2]		
		1-4 Units				5 Units or More										
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	1-4 Units	5 Units or More	Non-Res.
1980																
FEB	$8,080	$6,440	$1,950	$1,570	$2,920	$ 550	$ 30	$ 520	$1,090	$2,360	$ 860	$560	$ 940	64%	136%	103%
MAR	6,310	4,720	1,220	1,100	2,400	590	40	550	1,000	2,430	930	580	920	75	137	104
APR	5,800	4,120	1,020	870	2,230	680	10	670	1,000	2,310	800	570	940	74	137	103
MAY	5,760	4,050	1,010	830	2,210	780	10	770	930	2,190	780	580	830	59	134	105
JUN	5,690	3,840	1,240	870	1,730	960	20	940	890	2,460	810	590	1,060	70	141	103
JUL	9,260	4,900	1,550	1,170	2,180	2,430	1,500	930	1,930	2,480	760	660	1,060	63	121	85
AUG	7,560	5,070	1,710	1,370	1,990	940	30	910	1,550	2,490	900	610	980	65	123	96
SEP	9,230	6,910	2,200	2,040	2,670	940	30	910	1,380	2,580	880	650	1,050	53	113	120
OCT	10,530	6,710	2,030	1,730	2,950	2,390	1,510	880	1,430	2,520	810	690	1,020	60	116	116
NOV	9,480	5,810	1,620	1,350	2,840	2,340	1,550	790	1,330	2,960	820	860	1,280	66	113	129
DEC	11,200	7,060	1,920	1,560	3,580	2,640	1,540	1,100	1,500	3,190	840	940	1,410	69	109	118
1981																
JAN	9,670	5,690	1,320	990	2,380	2,720	1,400	1,320	1,260	3,060	1,050	800	1,210	73	112	105
FEB p	7,640	5,130	1,420	1,060	2,610	1,320	20	1,300	1,190	3,210	1,020	730	1,460	76	125	106

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH							
	To Borrowers				From Investors				To Borrowers				From Investors			
	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.
1980																
FEB	$ 2,050	$ 1,820	$ 60	$ 170	$ 2,490	$ 2,210	$ 80	$ 200	$7,380	$3,780	$ 740	$2,860	$12,340	$6,530	$1,750	$4,060
MAR	2,380	2,040	90	250	2,260	1,830	170	260	7,120	3,680	710	2,730	11,980	6,330	1,780	3,870
APR	1,970	1,680	40	250	2,180	1,500	170	510	6,080	3,170	520	2,390	10,510	5,370	1,650	3,490
MAY	2,960	2,730	90	140	1,550	1,290	100	160	7,120	3,820	570	2,730	10,340	4,680	1,810	3,850
JUN	2,840	2,480	160	200	2,280	1,430	540	310	7,670	4,320	830	2,520	12,850	6,810	2,530	3,510
JUL	3,050	2,850	70	130	2,540	2,190	150	200	9,190	5,000	1,440	2,750	13,750	6,520	3,250	3,980
AUG	2,680	2,090	190	400	2,990	2,240	110	640	8,200	4,830	950	2,420	12,640	6,480	2,330	3,830
SEP	2,700	1,970	200	530	3,180	2,230	220	730	7,620	4,470	880	2,270	12,530	6,080	2,050	4,400
OCT	3,230	2,320	70	840	4,020	2,100	310	1,610	7,330	4,060	780	2,490	14,670	6,440	3,680	4,550
NOV	2,540	1,460	680	400	3,790	2,190	700	900	7,230	3,920	1,160	2,150	14,770	6,380	3,960	4,430
DEC	3,540	1,840	810	890	4,840	1,750	140	1,950	7,620	4,010	1,220	2,390	16,430	7,630	4,210	4,590
1981																
JAN	3,270	2,750	250	300	2,450	1,920	270	260	8,510	4,210	1,570	2,730	16,210	7,230	4,790	4,190
FEB p	3,100	2,640	170	290	4,490	3,870	300	320	9,140	5,050	1,600	2,490	15,250	7,690	3,660	3,900
Year-to-date																
1980	$32,930	$25,970	$2,560	$4,400	$34,620	$22,910	$4,020	$7,690								
1979	44,430	33,110	2,220	9,100	49,350	35,280	3,190	10,880								
1978	46,920	32,930	1,690	12,300	54,830	37,690	2,710	14,430								

[1] Total is seasonally adjusted separately from components. Total, therefore, may not equal the sum of the parts.

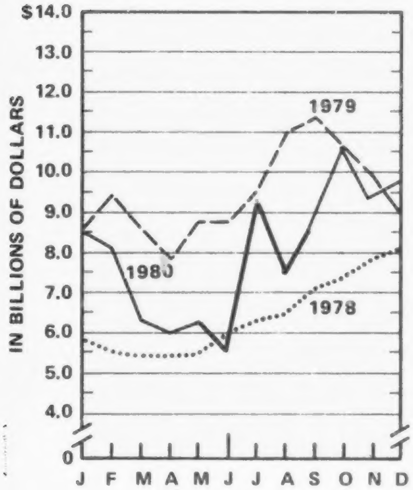
[2] Percent coverage is outstanding long-term commitments, received from investors, divided by the sum of outstanding end of month inventory and outstanding long-term commitments issued to borrowers, multiplied by 100.

Note: All series labeled 'non-residential' are also inclusive of farm data.

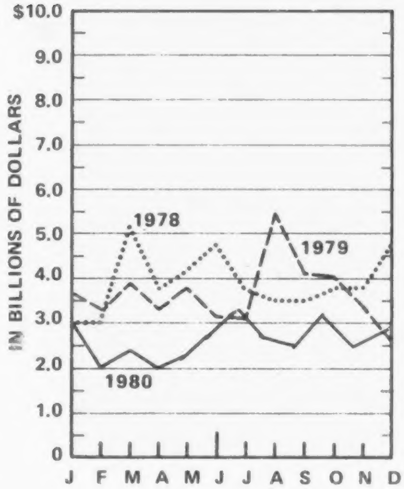
MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGES

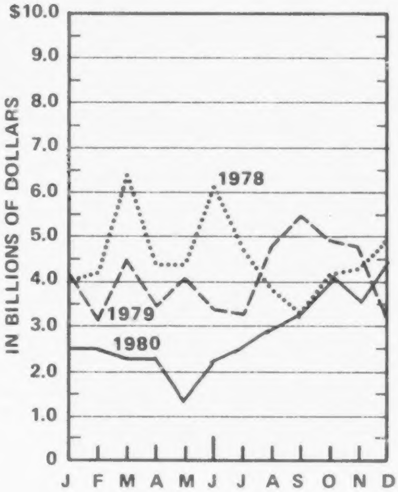
Inventory: Own Account



Commitments Issued

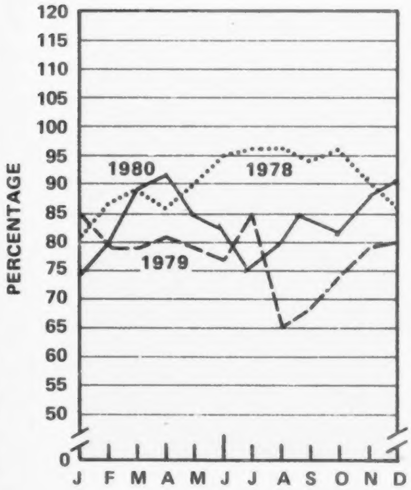


Commitments Received

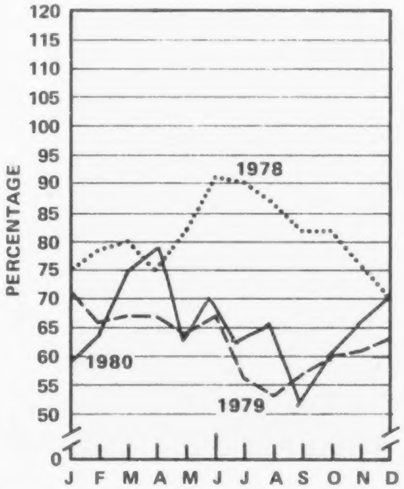


COVERAGE[1]

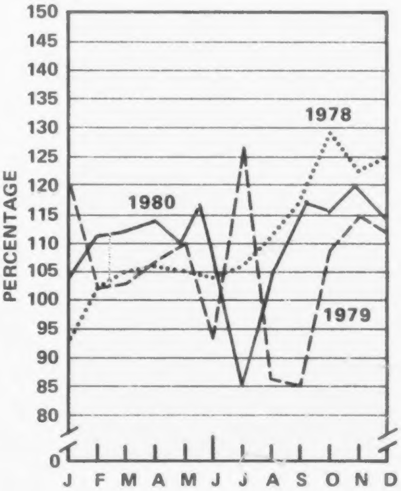
All Loans



1-To 4-Unit Loans



Income Property Loans



[1] Percent coverage is outstanding long-term commitments received from investors, divided by the sum of outstanding end of month inventory and outstanding long-term commitments issued to borrowers, multiplied by 100.

Note: Data are estimates for all mortgage banking members of MBA. Estimates for the 699 mortgage banking members are based on a sample of firms representing 25 percent of the total long-term originations in the industry. The current month's data are preliminary and will be revised the following month. Once each year when new annual benchmark data for the industry becomes available, the monthly data are again revised to match the annual industry totals published in *Mortgage Banking: Loans Closed and Servicing Volume*. The latest benchmark revisions were made effective with the December 1978 benchmarks.

Source: MBA Economics Department

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The Magazine of Real Estate Finance

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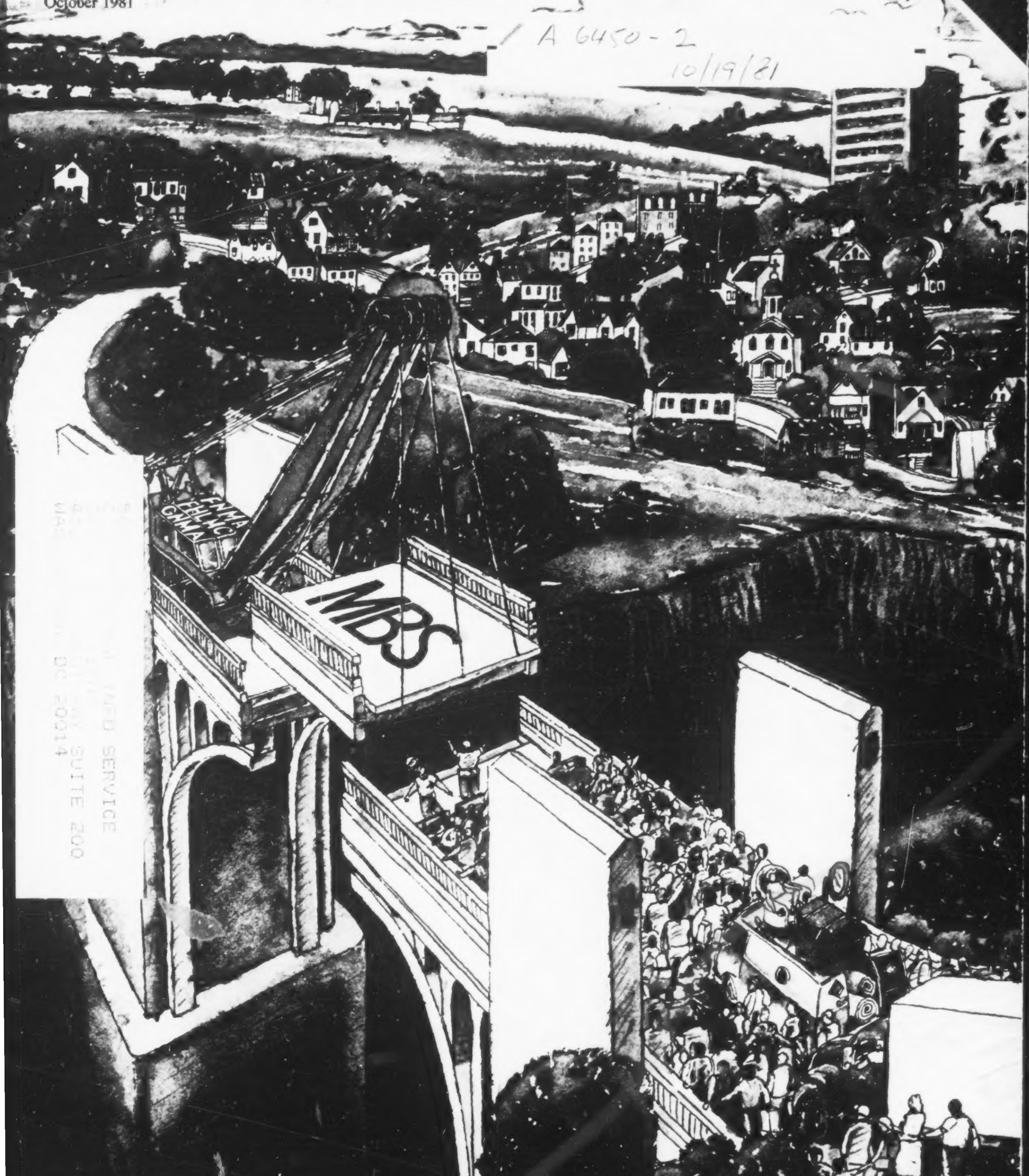
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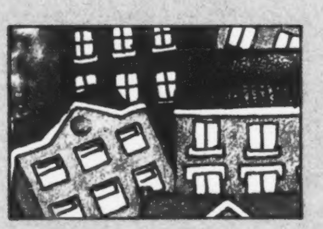
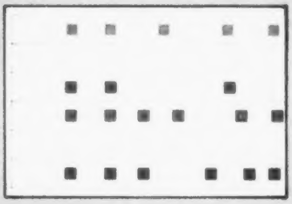


Pension Funds and the
Mortgage Banker
Page 103

Insurance Farm
Lending
Page 67



Information
Processing
Page 111

New Role For Mortgage Bankers 16
Lawrence Simons

Due-On-Sale: The National Picture 24
Barrett Sanders

Opinion From Industry Leaders: Income Property Issues 28

The GPM/VRM: A Mortgage For Inflationary Times 39
James McTernan and Reid Nagle

GNMA Options On The CBOE 53
Joseph Sullivan

Bankruptcy Reform Act: Working Within the Law 61
Dennis Jankowski

Insurance Farm Lending: A State of Flux 67

Mortgage Foreclosures: A Need For Outside Counsel? 78
Bruce J. Bergman

Protecting Lenders Against ARM Risks and Uncertainties 82
Gerald L. Friedman

Controlling Risk in Mortgage Portfolios 87
William Beranek and Alex O. Williams

More Help For The Underwriter In Changing Market 95
Henry C. Entreken

HUD Survivorship Table; An Update 101
Thomas Herzog

Pension Funds and the Mortgage Banker: A New Relationship 103
Perry Levin

New IRS Ruling: Real Estate Implications 107
Robert Voelker and Deborah Odell

Information Processing; a Choice To Make 111
Guy Massey

New Orleans: MBA Convention City 1981 115

MBA 1981 Convention Exhibitors Listing 117

Departments

Starts 5
Industry 7
Association 118
People 122
Books 126
Mortgage Market Trends 129
Classified Advertisements 138
Advertisers Index 143

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The GPM/VRM: A MORTGAGE FOR INFLATIONARY TIMES

James P. McTernan
Reid Nagle

As we begin the 1980s, the housing sector has entered a painful and prolonged slowdown, the most acute in the postwar period. While there is still a strong basic demand for housing, caused by a continued growth in household formation as well as a speculative incentive for homeownership, purchases of both new and existing homes have in the past two years fallen sharply from the levels of the 1976-78 period. The major cause of this decline can be stated simply: lack of affordability.

The current affordability squeeze is reflected in the fact that the price of homeownership, relative to the price of other goods and particularly relative to household income, has risen to the point where many households wishing to purchase homes cannot afford to do so. This reduction in housing affordability has been caused by three factors. First, housing prices have appreciated faster than the overall inflation rate throughout the 1970s. Second, fixed payment mortgage (FPM) rates have risen in response to a higher inflation rate and have placed a disproportionate burden of the cost of homeownership on the first few years following a home purchase.[1] Third, a sluggish economy caused a decline in real household income during 1979 and 1980.

In combination, these three factors have dramatically pushed up the fraction of income that a household must devote to debt maintenance associated with the recent purchase of a house. To see this, consider a simulation over time of the cost of purchasing an existing home. Table 1 shows the debt/income ratio that results from the mortgage payment required for a household with

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Mr. Nagle is senior vice president and chief economist for City Federal Savings and Loan Association. He joined City Federal in 1978 as vice president, Economics and Planning Department. In addition, he has served as director of the company's assets/liability management committee.

---

[1] As used here, fixed-payment mortgage means a 30-year mortgage with a fixed-rate and constant payment structure.

Table 1

Home affordability[a]

Year Originated	Average Loan Size ($)[b]	Average Mortgage Rate (%)	Monthly Payments ($)	Median Monthly Family Income ($)	Debt/Income Ratio (%)
1967	15,419	6.38	96.25	665	14.47
1968	16,226	6.89	106.76	719	14.85
1969	17,457	7.68	124.22	786	15.80
1970	18,386	8.20	136.94	822	16.66
1971	19,822	7.54	139.14	857	16.24
1972	21,336	7.39	147.58	926	15.94
1973	23,150	7.86	167.62	1,004	16.69
1974	25,622	8.84	203.21	1,069	19.01
1975	28,186	9.02	227.94	1,143	19.94
1976	30,460	8.92	243.34	1,246	19.53
1977	34,200	8.83	271.01	1,334	20.32
1978	38,954	9.37	323.86	1,470	22.03
1979	44,426	10.66	411.71	1,621[P]	25.40
1980	48,040	12.42	509.73	1,765[P]	28.88

[a] Expressed in terms of debt-to-income ratios resulting from buying a median priced home with median income under 30-year, fixed payment mortgage.

[b] Average loan size is assumed to be 80% of the median home price for existing home sales.

[P] Preliminary figures

Sources: Median House Price: Bureau of Census, National Association of Realtors
Mortgage Rates: Federal Home Loan Bank Board
Median Family Income: Bureau of Census

a median family income to purchase an existing home (at median sale price) with an 80 percent conventional FPM loan at the prevailing mortgage rate. Between 1972 and 1980, the debt/income ratio required under these assumptions rose from 15.9 percent to 28.9 percent—and although the ratio rose continuously, most of the increase occurred between 1977 and 1980. Household income figures are not yet available for 1981, but the continued rise in mortgage commitment rates indicated that the required debt/income ratio rose to approximately 38 percent as of May 1981.

Because of this rapid erosion of home affordability, the number of households financially able to purchase a home has fallen dramatically. As recently as 1978, 62 percent of all households could have afforded to carry an 80 percent mortgage on a median priced home. As of May 1981, the share of households that could afford to carry a newly originated mortgage had fallen to 39 percent.

The purpose of this analysis is to determine what role mortgage lenders can play in fostering homeownership by making it more affordable. Clearly, mortgage lenders can have little if any influence on home prices or on the direction of real incomes. But depending on the choice of mortgage instrument, they can have a significant influence on the cost structure of owning a home. To understand how, one must examine the fixed payment mortgage, identify its shortcomings in today's economic environment, and structure a mortgage that corrects these shortcomings.

Inflationary effects

For much of the 1960s and 1970s, mortgage rates tended upwards, albeit at a pace that appears unspectacular in light of rate movements in the past two years. As a point of comparison, the average conventional mortgage rate rose from 6.38 percent in 1967 to 8.83 percent in 1977, an increase of 245 basis points for the decade. This was only slightly greater than the 229 basis point jump that occurred over the 9 month span from August 1980 to May 1981, when rates went from 11.89 percent to 14.18 percent[2].

Despite the rise in the cost of home financing, the 1970s turned out to be a giddy period for buyers, sellers, brokers, and lenders as the number of sales of new and existing homes took off, and homes appreciated at rates well above the overall inflation rate. With the exception of the 1974-75 recession, housing remained remarkably buoyant in the face of rapidly rising prices and marginally higher interest rates. If anything, home appreciation was self-generating, as households expedited their purchase plans after experiencing and realizing the rapid equity accumulation of home ownership. This proved particularly true in the Sunbelt regions. The median sales price of an existing single family home in the West appreciated 224 percent between 1969 and 1979, while simultaneously, existing home sales rose 134 percent.

Aggregate demand for housing shifted sharply upward between 1967 and 1979. This was caused by the above-mentioned increase in the desirability of homeownership, and also by the heightened affordability that resulted from the trend to two-income families. Both of these factors outweighed the increase in the relative cost of homeownership. Propelled by rising home prices and escalating interest rates, the cost of carry of a conventionally-financed mortgage on a typical home rose 328 percent over the period compared with a rise in household income of 144 percent. Clearly, without the presence of other factors, housing sales and construction could not have remained at the heady levels sustained in the seventies.

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[2] Mortgage rates represent the contract interest rate for purchase of previously-occupied homes as published by the Federal Home Loan Bank Board.

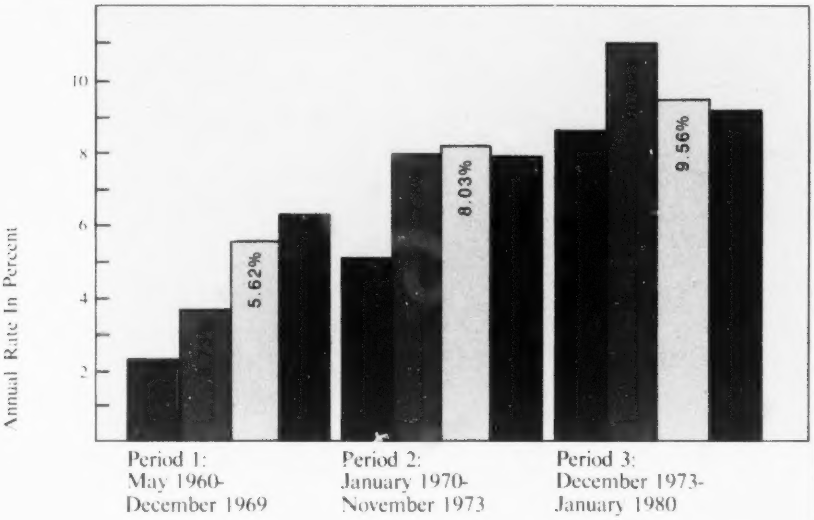
In less than two years' time, the bubble burst, with little prospect for recovery in the near future. How is it that the housing industry could withstand fifteen years of mounting financial pressure and then collapse in a period of less than twenty-four months? Unlike the 1974-75 period, a funds shortage at thrift institutions is not a major cause. In the past six years, the mortgage markets have become an active and increasingly liquid element of the capital markets, particularly with the development of GNMA, FHLMC, FNMA, and other mortgage-backed securities programs. As a result, the inability of thrift institutions to attract their usual share of retail savings in the past two years, while a factor, does not have the impact that it did when the mortgage market was isolated from other capital markets.

Instead, the major culprit has turned out to be inflation, and its near one-to-one relation with interest rates. Experience during the past twenty years has shown a close correlation between inflation, interest rates, housing appreciation, and nominal incomes. Chart 1 shows the relationship between these four variables during the three full business cycles that occurred between 1960 and 1980. Despite short-term aberrations such as occurred during 1980-1981, the following general relationships have held true: nominal long term interest rates equal inflationary expectations plus a premium; housing appreciation has equaled or exceeded the general rate of inflation except in periods of high interest rates; and nominal household incomes grew closely in line with inflation.

These relationships have an important bearing on the structure of mortgage financing in an inflationary environment. As inflation heats up, mortgage interest rates rise, increasing the cost of homeownership under a fixed payment mortgage. A rough rule-of-thumb is that monthly mortgage payments (under an FPM) increase 7 percent for every one percentage point rise in the mortgage rate. Thus, significant increases in the perceived level of inflation translate into higher mortgage rates that, under a fixed payment mortgage plan, multiplicatively increase the initial debt burden for home purchasers. Taking the past

Chart 1

Close correlation: inflation, home appreciation, income growth, and mortgage rates

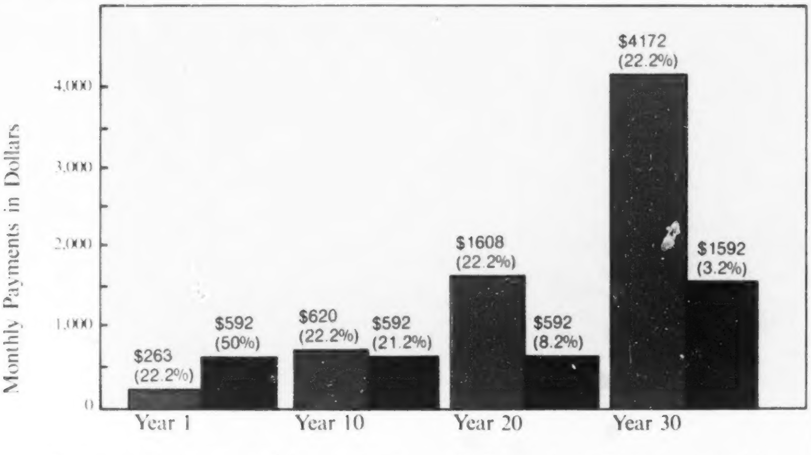


Sources: Inflation Rate: Bureau of Labor Statistics
Home Appreciation: Bureau of Census, National Association of Realtors
Income Growth: Bureau of Labor Statistics
Mortgage Rates: Federal Home Loan Bank Board

Note: The above periods represent complete business cycles

Chart 2

Housing affordability in an inflationary environment
Fixed Payment Mortgage vs. Graduated Payment Mortgage



Note: In the bar graph, each bar represents the monthly payment at a particular year in the 30-year mortgage. The terms in brackets represent the percentage of monthly household income devoted to mortgage payments.

Both loans have 30-year terms, and in the case of the GPM, payments increase 10.0% per year over the full 30-year term.

Assumes 10% annual inflation, a mortgage rate of 14% and annual household income growth of 10%. The initial loan balance is $50,000, and initial household income is $14,219/year.

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year as an example, mortgage commitment rates have risen 348 basis points, from 12.20 percent in July 1980 to 15.68 percent in May 1981[3]. Assuming the relationship between mortgage rates and perceived long-term inflation held true during the past year, then the 3.48 percentage point increase in mortgage rates represents a perceived increase in the long-term inflation rate of a like amount. Yet monthly mortgage payments, holding home prices constant, increased 26.9 percent, 7 times the increase in the inflation rate.

From an economic standpoint, this increase might well be accepted by potential homebuyers if their perception of future inflation and home appreciation is at a double-digit level. It makes sense to borrow money at 16 percent, which after deductibility of interest paid makes the real rate closer to 8 percent, and to put it in an essentially non-taxable investment that appreciates at 10-12 percent or higher. That's from an economic viewpoint.

The reality of the matter is that cash flow considerations interfere with rational consumer investment decisions. In an inflationary environment characterized by roughly equivalent increases in price levels and household incomes, the share of a household's income devoted to mortgage payments will decline over the life of a fixed payment mortgage. Assuming prices and income are growing at 10 percent annually, a fixed payment mortgage that consumes 50 percent of income in the first year following purchase will represent only 3.2 percent of income in the 30th year of ownership. Thus, the traditional mortgage concentrates the financial burden of homeownership into the initial years following purchase. With a fixed payment mortgage, even a slight increase in the perceived inflation rate and, correspondingly, in the mortgage rate, translates into an exponentially increased initial burden on potential homebuyers.

Inconsistency between the economic incentives and cashflow disincentives of homeownership that arises during an inflationary environment fundamentally reflects the inadequacy of existing mortgage instruments. Thirty-year, fixed-rate mortgages suit an economy characterized by price and income stability, but cannot cope adequately in the face of double-digit rates of inflation. Lenders can better serve themselves and potential borrowers by structuring a mortgage that, in an inflationary economy, brings mortgage payments more closely in line with a household's expected income stream, while providing sufficient rate flexibility and adequate collateral to themselves. In doing so, they should keep in mind that household income, interest rates and home appreciation all closely track inflation over the business cycle. An understanding of this fact will aid mortgage originators in reconciling the economic incentives and cash flow requirements for homeownership, and thus, help make homeownership affordable once again.

Alternative mortgages

The major purpose of this article is to lay the foundation for optimal mortgage lending in a regulation-free environment. Once restrictions now imposed on first mortgage lending by financial institutions are completely removed, lenders will be able to enter the mortgage market more aggressively and lend both for portfolio and for resale in the secondary markets.

Two major factors will determine the form that mortgage instruments will take in an unregulated lending environment. First, a mortgage instrument

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[3] Source: Federal Home Loan Bank Board.

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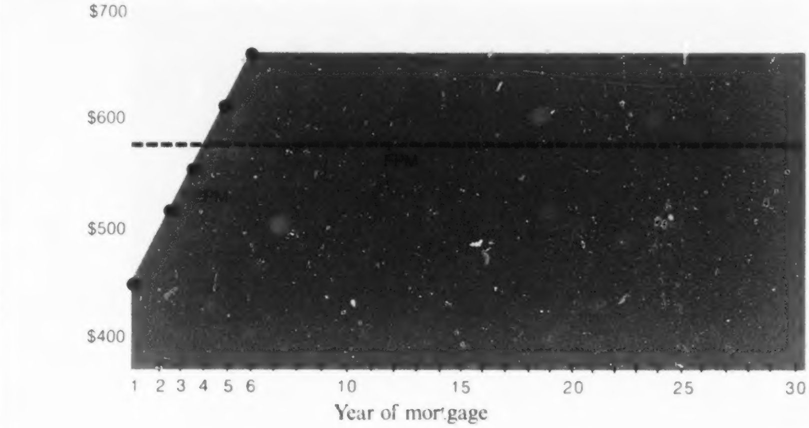
must fit the portfolio requirements of lenders and potential investors. Second, the mortgage instrument must be competitive in the market place and acceptable to the home-buying public. These two factors are considered in evaluating the acceptability of alternative mortgage programs.

Chart 3

Affordability in inflationary times: GPM vs. FPM



Note: GPM and FPM stand for graduated payment mortgage and fixed payment mortgage respectively. Both have 30 year terms and, during the first five years of the GPM, payments increase 7.5% per year. The examples here use a $50,000 mortgage and 14% interest rate.

Certain key characteristics must combine to form a mortgage that is acceptable to both borrower and lender. These characteristics must be chosen from a multitude of options from which a mortgage plan could be constructed. The two most important and controversial components of a mortgage program in today's volatile economic environment are interest-rate sensitivity and amortization schedule. The analysis that follows looks at these components in terms of their potential acceptability to homebuyers and to investors.

The basic question relating to interest-rate sensitivity is "How often should the rate change?" For savings and loan portfolios, the best option would match mortgages against six-month money market certificates, so that the rate charged on a thirty-year mortgage would change every six months in accordance with the results of the Treasury Bill auction. A number of institutions moved toward this option following issuance of the Federal Home Loan Bank Board's alternative mortgage lending regulations in April 1981, including Amerifirst in Miami, Glendale in Los Angeles, San Diego Federal, and City Federal in Elizabeth, New Jersey. For commercial bank lenders, frequent rate changes are desirable in order to match against commercial paper, large certificates of deposit, and retail deposits, all of which are highly interest rate sensitive[4].

It is not yet clear how borrowers will respond to variable rate mortgages. In California, where VRMs first started, rates were permitted to change up or down by no more than ½ percent a year and 2.5 percent over the life of the loan. This mortgage was acceptable to consumers because it provided a measure of certainty as to what payments would be in the future. If lenders want unlimited rate flexibility, it may be that they will have to include some assurance of payment stability, either through a rate cap or a fixed payment schedule. The latter concept, a fixed payment, variable rate mortgage served as the basis for the Wachovia and "California-type" mortgage plans.[5]

Potentially more important to homebuyers, particularly in an environment of double digit inflation, are the cash flow features of a mortgage plan. To understand this, consider a world in which inflation, income growth, and housing appreciation are all 10 percent per year for perpetuity. Mortgage rates are 14 percent, providing lenders with a 4 percent real rate of return. This situation closely approximates today's economy, except that there is no certainty that the condition will persist over a very long period of time.

Under this hypothetical scenario, faced with either a fixed payment mortgage or graduated payment mortgage where payments rise 10 percent a year for the full term, a borrower would find the fixed payment mortgage a real cash flow deterrent to home ownership. Carrying a fixed payment mortgage of $50,000, a household with an assumed income of $14,219 in the first year would devote 50 percent of its monthly income to mortgage payments in the first year, only 21.2 percent in the tenth year, and a mere 3.2 percent in the thirtieth and final year. Clearly as shown in Chart 2, the heaviest burden of ownership is in the first years after purchase.

Because payments conform more closely to income over time, the graduated payment mortgage makes homeownership much more affordable in an inflationary period. Using the same example, Chart 2 shows that while GPM payments increase in absolute amount they remain a constant percentage of income over time. Most importantly, payments in the first year of the plan are $329 less than under the FPM plan, and represent 22 percent of income instead of 50 percent. Graduated payment mortgages offer a more affordable financing plan to the borrower, while still providing adequate security to the lender. As long as home appreciation equals or exceeds the graduation/inflation rate, as it has for most of the last twenty years, then homeowner equity will grow and the ratio of debt to market value will decline over time.

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[4] As an alternative to frequent rate changes in order to achieve interest rate sensitivity, Dwight Jaffee of Princeton University has suggested continuing the fixed rate mortgage, while simultaneously shorting GNMA futures at regular intervals in order to effectively keep yields current.

[5] In the California plan, the rate at which interest is debited is adjusted every six months. However, payments remain fixed for three year period. As a result, amortization may deviate from its scheduled path. At the end of each three year term, the payments are recalculated so as to amortize the remaining loan balance over the remaining term at the current prevailing rate. With the Wachovia plan, the debit rate is adjusted more frequently, every three months. In all other respects, it is identical to the California plan: payments are kept constant for three year periods, and are recast at the end of each of these periods.

[6] To the authors' best knowledge, the first individual to propose the concept of a GPM/VRM was Donald P. Tucker. See his article "The Variable-Rate Graduated-Payment Mortgage", *Real Estate Review*, Spring 1975.

The two concepts blended together suggest a mortgage form that meets the needs of both borrower and lender. Borrowers are attracted to the graduated payment plan because it better suits their expected lifetime income; lenders need the variable rate feature to match the rate sensitivity of assets and liabilities.[6]

Putting it together: GPM/VRM

With the concepts of payment graduation and interest rate variability in hand, it is time to accord hypothetical simulations with reality. In light of our volatile economic times, no one knows for sure what inflation will average over the next thirty years. Most economists would agree that the underlying rate of inflation falls somewhere between 9 and 10 percent, yet that could change over time—going lower if the Reagan economic plan meets its promise, or to a new, higher plateau if the trend of the past two decades continues.

Because of economic uncertainties, and also as protection for adequate collateral, the graduation element of the mortgage plan should be for a limited period of time and at a rate somewhat below the perceived level of inflation. City Federal, in establishing its GPM/VRM instrument, has chosen to limit the period of graduation to 5 years, along the lines of the FHA-245 program, with payments rising 7.5 percent per year[7]. Superimposed on this GPM plan, a payment-certain, variable rate mortgage has been added. This satisfies the lender's need for rate flexibility and gives the borrower comfort in knowing for certain what payments will be for five years. The remaining 25 years of the original 30-year loan term are constructed of five, 5-year periods, structured as fixed-payment, variable rate mortgages.

During the first five years of the plan, payments have been set to rise at a rate of 7.5 percent each year. The initial payment is determined the same way that payments are calculated in the FHA-245 program: based on a market rate of interest, called the payment calculation rate here, payments are structured so that they increase at 7.5 percent per year for five years, and then remain constant for the 6th-30th years in a way that would fully amortize the loan at the end of the term at that rate. City Federal's GPM/VRM borrows from this structure and guarantees to the customer that payments will adhere to the graduated-payment schedule for the first five years of the plan.

The variable rate feature is independent of the payment schedule. The rate at which the investor earns and the borrower is charged changes every six months at a debiting rate equal to the prevailing six-month Treasury bill rate plus 3.5 percent. The movement in this rate does not affect payments in any five year period, instead, it affects the rate of amortization of the loan. To the extent that the interest owed in any period exceeds payment, there is an addition to principal. Similarly, when the interest falls short of the payment, the loan is amortized. As a result of its unique structure, the GPM/VRM has two possible sources of negative amortization: first, from the graduation feature; and second, from the possibility that the debiting rate can exceed the payment calculation rate.

Reactions to negative amortization from members of the financial community have been mixed. Some analysts draw a distinction between the two sources of negative amortization, graduated payments and adjustable rates, contending that negative amortization from the former is known at the start and therefore acceptable, whereas that arising from variable rates (given a predetermined payment structure) imposes unacceptable risks on both investors and borrowers[8]. A different view is held by lenders already offering ARMs in the marketplace. They suggest that negative amortization is an unavoidable characteristic of any loan that can significantly lower initial monthly payments, thus improving affordability.

While opinions as to its eventual acceptance differ, it is generally agreed that negative amortization can at first seem intimidating to the uneducated borrower. The prospect of making monthly payments for several years, only to have one's balance increase, rather than decrease, is obviously distressing. However, this problem exists in nominal terms only. In real terms (corrected for inflation) loan balances will almost always decline. Similarly, while the rates charged on adjustable rate loans may fluctuate wildly in nominal terms, history suggests that the real rate (nominal rate minus inflation rate) will be relatively constant over the loan run. Of course, the final determination of acceptance in the marketplace will come from the responses of borrowers and investors. City Federal's experience has been positive to date: initial response to the GPM/VRM offering has been favorable from both groups.

As to the details of City Federal's GPM/VRM, at the end of the first five-year, graduated payment schedule, the loan is recast by examining the outstanding loan balance and establishing a five year, fixed-payment schedule such that the loan would amortize over the remaining twenty-five year term at the selected payment calculation rate. As with the first five years, the debiting rate changes every six months according to an index and amortization reflects the difference between payments and accrued interest. This procedure repeats itself four more times until the loan terminates. Because amortization is not known beforehand, it is probably that the loan will either terminate early (before 30 years) or require a small balloon payment at the end of its term.

From the borrower's viewpoint, the graduation feature during the first five years of the loan makes housing much more affordable, particularly at high rates of interest. It does so by enabling households that could otherwise not afford fixed monthly payments the ability to purchase a home in a manner that fits their budgets, and also by allowing buyers to afford better quality housing for a given income. Using the previous example, and assuming for simplicity that the debiting rate equals the payment calculation rate for the life of the GPM/VRM, a comparison can be made between fixed payment and graduated payment mortgage affordability. Chart 3 displays the monthly payments on a $50,000 mortgage at 14 percent for both an FPM and a GPM, assuming the debiting rate remains fixed at 14 percent for the full term of the loan. The initial monthly payment on the GPM at $461 is 22 percent below the constant payment FPM. Assuming the FHLMC qualification limit of 28 percent initial debt-to-income ratio, a household would have to have an annual income of $25,768 to qualify for a FPM, and only $19,768 to qualify for a GPM.

With respect to the two key features of the GPM/VRM, graduation and rate flexibility, a major concern of lenders

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[7] City Federal's GPM/VRM is called the City Affordable Mortgage Plan (CAMP)/GPM and has initially been offered to builders only on a forward commitment basis.

[8] In answer to this concern, a variant of the GPM/VRM can be constructed that eliminates the uncertainty of negative amortization. A GPM/RRM, where the rate is adjusted only as frequently as payments are recast (in this case every five years) results in known schedules of negative amortization and loan balances.

Table 2

Loan-to-value ratios on GPM/VRM after five years: various appreciation and interest rates[a]

Assumptions:

- Purchase Price: $62,500
- Mortgage Amount: $50,000
- Payment Calculation Rate: = 14%

	Averaging Debiting Rate			
Annual Appreciation Rate	10	14	18	22
−4	81%	108%	141%	182%
0	66	88	115	148
4	54	72	95	122
8	45	60	78	101
12	38	50	65	84
16	32	42	55	71
20	27	35	45	60

[a] The table shows the ratio of debt to market value that would have existed after five years, given the assumptions provided, for each combination of interest rates and average annual appreciation rates over the five year period.

will be whether there exists adequate collateral behind the debt if either the debiting rate rises sharply, resulting in negative amortization, or housing fails to appreciate at rates close to the overall inflation rate. Certainly, there are combinations of appreciation rates and interest rates which result in loan to market value ratios (LTVs) exceeding 100 percent after the first five years of scheduled payments. As Table 2 demonstrates, however, the combinations of debiting rates and appreciation rates that cause this to happen are so extreme as to make the potential for insufficient collateral unlikely. Again using the prior examples of a $50,000 mortgage with an 80 percent LTV, it would require that on the average the debiting rate exceed the appreciation rate by 14-18 percent in order for the LTV to equal 100 percent at the end of five years.

The GPM/VRM is a mortgage hybrid that suits the needs of borrowers and lenders in a high rate environment. It accomplishes three purposes:[a]

- enables the borrower to better afford housing in an inflationary economy by structuring payments to meet his expected future income stream;
- provides the investor with a variable rate loan that can be funded with rate sensitive liabilities;
- allows for adequate lien security provided inflation, home appreciation, and interest rates continue to exhibit the close correlation they have shown in the past.

Summary

This nation will face a severe housing dilemma over the next ten to fifteen years. Housing demand will be great due to the maturing of the postwar baby boom and the trend toward smaller households. But unless there is a change in either the economic environment or the methods of housing finance, there is little prospect that these basic needs will be met. The problem is a simple one: high levels of inflation are incompatible with the traditional, fixed payment mortgage. One or the other has to go. If inflation persists, then a housing recovery will depend on the lender's ability and willingness to offer innovative mortgage instruments that make homeownership once again affordable to the majority of American households.

The graduated-payment, variable-rate mortgage recently introduced by City Federal Savings and Loan has been structured to meet the needs of both borrowers and lenders in a period of double-digit interest rates. It fits the needs of the homebuyer by providing financing at lower initial monthly payments that increase over time—hopefully in line with a household's ability to pay. It suits the lender/investor because it is a variable-rate asset that can be funded with rate-sensitive liabilities. Thus far, the reception for City's new mortgage has been enthusiastic. The mortgage is called CAMP/GPM: City Affordable Mortgage Plan with Graduated Payments. Through August of 1981, forward commitments on the CAMP/GPM have been made to 86 builders, for a total dollar volume of $225 million during a two-month offering period. This offers convincing evidence that the marketplace has recognized the need for a mortgage that is both affordable to homebuyers and suitable for the portfolio of investors. ☐

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[a] Milton Friedman has suggested an alternative mortgage plan that is logically the same as the GPM/VRM and would accomplish the same objective. Under his plan, the interest rate on a mortgage would be fixed at a low rate, say 4 percent, and would be applied to a principal balance that is indexed to changes in the consumer price index. As with the GPM/VRM, initial monthly payments would be lower than under an FPM, and would rise along with inflation and income growth. See Friedman's article, "How to Save the Housing Industry" in *Newsweek*, May 26, 1980.

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MORTGAGE MARKET TRENDS—OCTOBER 1981

RESIDENTIAL STRUCTURES, BY UNIT TYPE
(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
MAY	77	56	21	825	576	249	92	73	19	913	714	199
JUN	101	69	32	1,078	721	357	116	84	32	1,223	832	391
JUL	113	84	29	1,236	900	336	119	94	25	1,249	951	298
AUG	116	86	30	1,361	988	373	129	104	25	1,416	1,139	277
SEP	143	94	49	1,564	1,060	504	138	107	31	1,545	1,189	356
OCT	127	89	38	1,333	953	380	154	112	42	1,561	1,157	404
NOV	95	65	30	1,355	953	402	112	82	30	1,563	1,167	396
DEC	88	56	33	1,235	869	366	96	65	31	1,535	1,105	430
1981												
JAN	70	47	23	1,228	857	371	82	57	25	1,615	1,138	477
FEB	73	49	24	1,165	780	385	72	56	18	1,214	903	311
MAR	100	70	31	1,153	786	367	108	80	28	1,289	939	350
APR	111	79	31	1,186	811	375	124	93	31	1,340	993	347
MAY	101	69	32	1,167	764	403	110	84	26	1,158	870	288
JUN	95	66	29	963	622	302	104	80	24	1,021	768	253
JUL	86_p	60_p	25_p	924_p	668_p	295_p	100_p	78_p	23_p	$1,055_p$	790_p	265_p
7 months												
1981	636	440	195				700	528	175			
1980	601	425	176				661	492	169			
1979	900	647	243				1,033	799	234			
1978	993	724	269				1,179	917	262			

VALUE OF NEW CONSTRUCTION PUT IN PLACE
(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res
MAY	108,104	38,057	17,131	52,916
JUN	104,786	35,750	16,150	52,886
JUL	101,629	37,263	14,922	49,444
AUG	105,162	40,380	15,647	49,135
SEP	109,738	44,448	16,286	48,974
OCT	113,773	48,661	14,938	50,174
NOV	120,271	50,994	18,198	51,079
DEC	125,692	52,954	18,181	54,557
1981				
JAN	134,067	56,117	19,288	58,662
FEB	132,363	53,925	20,488	57,950
MAR	131,250	51,759	21,011	58,480
APR	131,000	52,047	20,858	58,095
MAY	124,502	49,378	18,327	56,797
JUN	122,647	45,743	18,484	58,420
JUL	$119,738_p$	$43,840_p$	$16,696_p$	$59,202_p$

HOUSE SALES
(Units in thousands)

Year and Month	EXISTING HOUSES'	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
MAY	219	43	349	8.1
JUN	233	48	342	7.2
JUL	275	55	339	6.2
AUG	286	60	332	5.6
SEP	293	48	339	7.1
OCT	282	44	343	7.8
NOV	210	37	344	9.2
DEC	187	34	337	10.2
1981				
JAN	166	36	331	9.3
FEB	175	40	324	8.1
MAR	220	48	321	6.7
APR	233	42	325	7.8
MAY	226	45	319	7.1
JUN	249	38	313	8.3
JUL	238_p	36	308	8.6
7 months				
1981	1,507	285		
1980	1,623	455		
1979	2,246	504		
1978	2,307	504		

RESIDENTIAL STRUCTURES, BY REGION
(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
MAY	9	13	36	19	98	122	399	206	12	15	45	21	129	122	459	203
JUN	11	15	48	27	114	142	534	288	13	21	58	24	120	179	679	245
JUL	12	20	50	32	119	208	566	343	12	20	60	27	194	193	664	278
AUG	11	19	53	33	117	213	650	381	13	21	63	32	128	224	694	370
SEP	14	26	69	35	143	242	770	409	17	30	61	30	216	288	679	362
OCT	14	26	56	31	139	247	597	350	12	34	75	32	107	310	782	362
NOV	10	17	44	25	124	225	639	367	10	23	55	24	111	305	783	364
DEC	9	13	52	22	111	209	623	292	9	13	52	22	131	259	793	352
1981																
JAN	5	6	40	18	102	190	641	295	5	8	50	18	163	329	887	281
FEB	5	7	42	19	124	174	598	269	3	6	45	18	85	189	677	263
MAR	10	15	51	24	121	194	562	276	8	15	63	22	124	217	687	261
APR	12	16	53	30	139	154	576	317	10	19	67	28	119	205	709	307
MAY	11	14	47	30	119	143	553	352	12	19	54	25	125	172	597	264
JUN	12	14	42	27	111	136	440	276	11	18	51	23	99	155	540	227
JUL	12_p	12_p	40_p	22_p	129_p	116_p	447_p	232_p	17_p	17_p	44_p	22_p	159_p	174_p	492_p	230_p
7 months																
1981	67	84	315	170					66	102	374	156				
1980	60	86	289	167					63	97	343	161				
1979	93	172	355	283					96	164	446	289				
1978	98	214	336	335					105	255	489	329				

CONSTRUCTION STATUS
(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
MAY	918	570	348	120	87	33
JUN	900	566	334	131	89	42
JUL	890	572	318	125	82	43
AUG	887	576	311	128	96	32
SEP	905	601	304	116	81	35
OCT	935	620	315	120	89	31
NOV	932	632	312	114	81	33
DEC	918	657	311	129	99	30
1981						
JAN	892	570	313	88	69	18
FEB	869	551	318	93	72	22
MAR	867	554	313	105	74	31
APR	882	564	317	111	80	31
MAY	893	571	322	97	75	22
JUN	872	560	312	123	89	34
JUL	862_p	558_p	304_p	109_p	79_p	31_p
7 months						
1981				726	538	158
1980				892	624	268
1979				1,019	780	204
1978				990	785	206

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS'	CONSTRUCTION LOANS' ALL TYPES	FNMA		GNMA Current Securities Yield'	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				FMS Auction Yields on 4 mo. Commitments'			Aaa Utility New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
	FHA New'	Conventional		Conventional				FHA/VA	Conv			10-yr	26-wk			
		New	Existing	New	Existing											
1980																
MAY	11.99	13.20	13.20	13.67	14.12	13.000-15.000	18.32	12.855	13.535	11.54	11.53	10.18	9.149	9.49	46	136
JUN	11.85	12.45	12.45	12.69	13.31	12.250-12.750		12.360	12.946	10.89	10.96	9.78	7.218	8.27	89	111
JUL	12.39	12.45	12.45	12.48	12.61	12.500-13.500		12.630	12.807	11.53	11.60	10.25	8.101	8.41	79	128
AUG	13.54	13.25	13.25	12.25	12.26	13.000-14.500	13.16	13.873	13.663	12.33	12.32	11.10	9.443	9.57	122	123
SEP	14.26	13.65	13.70	12.36	12.38	13.000-14.000		14.819	14.450	12.86	12.74	11.51	10.546	10.97	152	135
OCT	14.38	14.10	14.10	12.60	12.64	13.500-14.500		14.965	14.791	13.24	13.18	11.75	11.566	12.52	120	149
NOV	14.47	14.70	14.70	13.08	13.29	n.a.	15.31	15.530	15.280	13.69	13.85	12.68	13.612	15.18	62	101
DEC	14.08	15.05	15.05	13.28	13.58	n.a.		15.192	15.568	13.71	14.51	12.84	14.770	18.07	43	87
1981																
JAN	14.23	14.95	14.95	13.28	13.91	n.a.		14.870	14.923	13.65	14.12	12.57	13.883	16.58	11	108
FEB	14.79	15.10	15.10	13.54	14.13	n.a.	19.40	15.261	15.108	14.16	14.90	13.19	14.134	15.49	11	103
MAR	15.04	15.25	15.25	14.02	14.34	n.a.		15.590	15.337	14.15	14.71	13.12	12.983	13.94	33	103
APR	15.91	15.70	15.75	14.15	14.48	n.a.		16.652	15.674	15.05	15.68	13.68	13.434	14.56	23	137
MAY	16.33	16.35	16.40	14.15	14.64	n.a.	19.09	17.255	16.434	15.55	15.81	14.10	15.334	17.56	52	145
JUN	16.31	16.40	16.45	14.67	14.88	n.a.		16.166	16.305	15.35	14.76	13.47	13.947	16.32	155	188
JUL	16.76	16.70	16.75	14.62	15.26	n.a.		16.790	16.430	15.97	16.30	14.28	14.402	17.00	46	169

LONG-TERM MORTGAGE LOANS CLOSED
(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos.
1980																				
MAR	14,137	2,640	5,487	4,509	1,501	10,305	2,090	4,955	2,899	361	516	70	224	135	87	3,316	480	308	1,475	1,053
APR	12,356	2,290	4,707	4,111	1,248	8,866	1,660	4,216	2,749	241	610	90	218	137	165	2,880	540	273	1,225	842
MAY	9,852	2,080	3,536	3,301	935	6,864	1,610	2,996	2,051	207	428	40	220	102	66	2,560	430	320	1,148	662
JUN	10,774	2,660	4,147	2,872	1,095	7,291	1,850	3,533	1,794	114	813	310	248	167	88	2,660	490	366	911	893
JUL	12,477	2,950	5,460	2,947	1,120	9,460	2,430	4,885	2,041	104	565	50	313	94	108	2,462	480	262	812	908
AUG	15,659	3,060	7,722	3,710	1,167	12,595	2,700	7,089	2,732	74	596	30	276	162	128	2,468	330	357	816	965
SEP	17,447	3,040	8,597	4,942	868	13,906	2,370	7,818	3,635	83	787	220	364	116	87	2,744	440	415	1,191	698
OCT	17,794	3,090	8,423	5,139	1,142	13,854	2,380	7,616	3,786	72	843	160	327	180	176	3,087	540	480	1,173	894
NOV	13,417	2,420	5,913	3,951	1,133	9,973	1,760	5,316	2,847	50	597	120	226	139	112	2,837	530	371	965	971
DEC	14,143	2,560	6,035	4,106	1,442	9,671	1,810	5,277	2,563	21	880	170	272	237	201	3,592	580	486	1,306	1,220
1981																				
JAN	9,854	2,060	3,831	3,039	924	6,345	1,290	3,392	1,633	30	909	470	151	205	83	2,600	300	288	1,201	811
FEB	8,825	1,700	3,422	2,795	908	5,692	1,190	2,929	1,543	30	469	40	218	129	82	2,664	470	275	1,123	796
MAR	9,886	2,030	4,276	2,750	830	7,168	1,580	3,818	1,729	41	590	140	158	212	80	2,128	310	300	809	709
APR	11,081	2,220	4,749	3,044	1,068	7,864	1,820	4,210	1,789	45	576	90	234	147	105	2,641	310	305	1,108	918
MAY	12,249	2,190	4,961	4,160	938	8,047	1,630	4,453	1,922	42	604	150	183	216	55	3,598	410	325	2,022	841
JUN	12,845	2,230	5,367	4,231	1,017	9,381	1,930	4,767	2,640	44	691	60	259	244	128	2,773	240	341	1,347	845

LONG-TERM COMMITMENT ACTIVITY
(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos.	Total	Mtg Bankers	S&Ls	Banks[8]	Life Cos.
1980										
FEB	68,815	12,330	21,351	9,717	25,417	9,404	2,050	5,017	1,637	700
MAR	66,118	11,970	20,424	9,215	24,509	9,922	2,370	4,782	1,850	920
APR	60,999	10,500	18,597	8,286	23,616	7,122	1,960	3,147	1,276	739
MAY	58,837	10,340	17,762	8,011	22,724	7,053	2,960	2,802	901	390
JUN	59,818	11,720	18,848	7,651	21,599	9,536	3,340	4,580	1,250	366
JUL	62,045	12,270	21,310	7,769	20,696	12,348	2,830	7,128	1,626	764
AUG	65,653	12,640	23,876	9,032	20,105	14,891	2,620	9,510	2,076	685
SEP	66,431	12,550	24,476	9,230	20,175	15,301	2,420	8,858	2,676	1,347
OCT	62,225	9,970	23,641	8,899	19,715	13,217	2,890	7,305	2,142	880
NOV	61,502	11,020	22,790	8,629	19,063	10,068	2,560	5,146	1,608	754
DEC	57,182	9,800	20,857	8,582	17,943	9,362	2,610	4,460	1,675	617
1981										
JAN	54,717	9,930	19,818	7,922	17,047	9,434	4,790	3,174	1,133	337
FEB	53,188	9,000	19,856	7,993	16,339	7,863	2,600	3,564	1,124	575
MAR	56,196	10,880	20,631	8,927	15,758	10,150	2,920	5,013	1,661	556
APR	55,691	9,760	21,720	8,749	15,462	10,663	2,720	5,433	1,658	852
MAY	55,518	8,870	22,109	9,524	15,015	10,983	2,500	5,232	2,751	500
JUN	53,677	9,160	21,449	8,438	14,630	9,704	2,830	4,325	1,717	832

MORTGAGE INSURANCE
(Units in thousands, dollars in millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
				Total		FHA (203)		VA		Private	
	Total	FHA/ VA	Private	Units	Amt	Units	Amt	Units	Amt	Units	Amt
1980											
FEB	91	63	28	71	3,153	21	753	26	1,301	24	1,099
MAR	101	61	40	74	3,371	18	696	27	1,329	29	1,346
APR	90	58	32	76	3,473	20	746	23	1,149	33	1,578
MAY	101	76	25	56	2,608	13	483	17	848	26	1,277
JUN	105	78	27	50	2,273	13	502	15	741	22	1,030
JUL	138	99	39	63	2,904	20	823	16	817	27	1,264
AUG	139	89	50	70	3,389	23	958	17	944	30	1,487
SEP	136	76	60	94	4,592	23	945	30	1,624	41	2,023
OCT	115	59	56	95	4,580	24	990	21	1,133	50	2,458
NOV	90	48	42	79	3,624	18	725	21	1,135	40	1,964
DEC	95	50	45	82	3,995	20	836	18	954	42	2,071
1981											
JAN	71	46	25	62	2,895	14	542	18	917	31	1,582
FEB	74	49	25	50	2,504	13	510	13	745	24	1,249
MAR	94	60	34	53	2,627	14	560	13	706	26	1,361
APR	96	58	38	59	2,938	16	664	14	770	29	1,504
MAY	80	42	38	54	2,643	14	573	11	583	29	1,487
JUN	81	41	41	64	3,272	14	600	16	876	34	1,796

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

Year and Month	FNMA					FHLMC			GNMA	
	4-Month Commitments				12 Month Convert Standby	Comm	Purc	Sold	Pass-Through Securities	
	FHA/VA Bid	FHA/VA Accept	Conventional Bid	Conventional Accept					Applications	Issued
1980										
APR	494	199	135	66	85	189	231	200	4,509	1,778
MAY	609	214	280	109	62	491	176	391	5,281	1,127
JUN	603	267	170	76	92	577	225	230	6,627	1,320
JUL	1,255	506	229	141	72	702	440	288	5,322	1,874
AUG	1,347	775	430	219	112	476	495	320	4,936	2,215
SEP	1,268	741	348	210	102	218	521	275	6,850	1,807
OCT	584	344	108	64	100	221	398	193	7,757	2,255
NOV	331	176	82	69	214	180	231	88	2,277	1,613
DEC	309	137	85	54	180	126	285	48	3,575	1,569
1981										
JAN	275	122	32	30	78	203	152	168	3,656	1,300
FEB	199	115	118	79	41	81	174	94	2,231	1,306
MAR	197	139	149	98	67	474	148	128	3,297	1,046
APR	175	147	127	92	22	118	125	97	2,962	1,404
MAY	282	252	281	156	69	130	480	421	4,296	1,245
JUN	298	265	307	224	204	293	139	94	4,380	1,382

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY
(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res		Total	1-4 Units	5+ Units	Non-res
1980									
APR	190	70	40	80	60	3,480	1,100	1,040	1,340
MAY	210	90	50	70	70	4,250	960	1,790	1,500
JUN	150	60	30	60	30	4,170	950	1,910	1,310
JUL	130	60	40	30	30	4,300	950	2,120	1,230
AUG	180	80	40	60	40	4,260	990	1,840	1,430
SEP	180	80	40	60	40	4,130	1,170	1,760	1,200
OCT	150	60	30	60	190	4,180	1,350	1,540	1,290
NOV	170	50	70	50	50	5,460	920	2,760	1,780
DEC	160	50	50	60	160	4,810	850	2,060	1,900
1981									
JAN	140	50	30	60	70	4,920	1,220	2,390	1,310
FEB	130	50	30	50	50	5,210	1,130	2,020	2,060
MAR	150	70	30	50	50	5,450	1,060	2,190	2,200
APR	210	70	40	100	30	4,620	770	1,770	2,080
MAY	120	60	20	40	20	3,420	680	1,710	1,030
JUN	110	40	30	40	40	3,400	710	1,720	970

n.a. Not available; p Preliminary

[1] From the National Association of Realtors' "Existing Home Sales" series

[2] Reflects cumulative total through the latest month for each column

[3] Secondary market gross yields

[4] Benchmark rates. Citicorp Real Estate, Inc.

[5] Federal Reserve's weighted average interest rate for Commercial Banks

[6] Weighted average gross yields for accepted bids

[7] Survey of three New York security dealers. Securities for immediate delivery

[8] Mutual Savings Banks and Commercial Banks

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration

MORTGAGE BANKING ACTIVITY
(All dollars amounts are in millions)

LOANS CLOSED

Year and Month	LONG-TERM MORTGAGE LOANS													CONSTRUCTION LOANS
	Seasonally Adjusted				Not Seasonally Adjusted									
						1-4 Units				5 Units or more				
	Total	1-4 Units	5 Units or More	Non-Res.	Total	Total	FHA	VA	Com.	Total	FHA	Com.	Non-Res.	Total
1980														
JUN	$ 2,730	$ 1,880	$ 310	$ 660	$ 2,660	$ 1,850	$ 900	$ 620	$ 330	$ 310	$ 50	$ 260	$ 490	$ 830
JUL	2,780	2,270	40	570	2,950	2,430	1,220	850	360	50	40	10	480	450
AUG	2,780	2,390	30	420	3,060	2,700	1,250	970	480	30	30	0	330	1,610
SEP	2,710	2,080	140	490	3,040	2,370	1,010	800	560	220	220	0	440	2,040
OCT	2,590	2,020	260	480	3,090	2,380	970	750	660	160	90	70	540	2,480
NOV	2,450	1,820	130	530	2,420	1,760	660	550	550	120	80	40	530	630
DEC	2,250	1,700	150	330	2,560	1,810	720	580	510	170	110	60	580	1,100
1981														
JAN	2,380	1,390	570	480	2,060	1,290	520	400	370	470	190	280	300	770
FEB	1,990	1,510	50	480	1,700	1,190	500	390	300	40	10	30	470	550
MAR	2,170	1,700	140	220	2,030	1,580	680	500	400	140	90	50	310	420
APR	2,520	2,130	70	350	2,220	1,820	820	560	440	90	10	80	310	530
MAY	2,550	1,830	310	520	2,190	1,630	690	480	460	150	90	60	410	590
JUN	2,230	1,870	60	300	2,230	1,930	700	510	720	60	10	50	240	980
Year-to-date														
1981	$13,840	$10,430	$1,200	$2,350	$12,430	$ 9,440	$ 3,910	$ 2,840	$ 2,690	$ 950	$ 400	$ 550	$2,040	$ 3,840
1980	16,010	11,500	1,050	3,520	14,570	10,420	4,020	3,300	3,100	960	300	600	3,190	4,760
1979	20,770	16,690	1,370	2,720	18,920	15,310	5,190	4,950	5,170	1,220	410	810	2,390	12,460

OUTSTANDING END OF MONTH INVENTORY

COVERAGE²

Year and Month	LONG TERM MORTGAGE LOANS									CONSTRUCTION LOANS				COVERAGE²		
		1-4 Units				5 Units or More										
	Total	Total	FHA	VA	Com.	Total	FHA	Com.	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	1-4 Units	5 Units or More	Non-Res.
1980																
JUN	$5,210	$3,960	$1,240	$ 850	$1,870	$ 410	$ 20	$ 390	$ 840	$2,050	$ 740	$490	$ 820	70%	200%	93%
JUL	6,570	4,610	1,580	1,100	1,930	1,090	700	390	870	1,800	600	490	710	64	115	97
AUG	6,430	4,950	1,710	1,270	1,970	410	20	390	1,070	2,110	760	520	830	71	156	93
SEP	7,030	5,560	1,740	1,530	2,290	410	20	390	1,060	2,080	720	520	840	71	151	96
OCT	8,300	5,750	1,860	1,430	2,460	1,370	960	410	1,180	1,990	640	540	810	52	79	85
NOV	8,060	5,560	1,550	1,290	2,720	1,360	960	400	1,140	2,490	660	720	1,110	60	85	90
DEC	6,820	4,430	1,210	1,010	2,210	1,350	930	430	1,040	2,440	640	730	1,070	61	75	98
1981																
JAN	6,540	4,210	1,230	910	2,070	1,340	890	450	990	2,500	860	650	990	50	88	104
FEB	5,760	4,330	1,170	910	2,250	450	10	440	980	2,600	830	590	1,180	48	132	82
MAR	5,980	4,540	1,260	980	2,300	450	10	440	990	2,450	780	590	1,080	63	130	109
APR	6,450	4,810	1,540	1,040	2,230	480	10	470	1,160	2,370	650	570	1,150	59	117	74
MAY	10,210	6,330	2,350	1,870	2,110	700	270	430	3,180	1,780	620	450	710	42	104	48
JUN	10,980	7,110	2,560	1,990	2,560	700	270	430	3,170	1,890	610	500	780	55	99	50

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH							
	To Borrowers				From Investors				To Borrowers				From Investors			
	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.	Total	1-4 Units	5 Units or More	Non-Res.
1980																
JUN	$ 3,340	$ 3,110	$ 80	$ 150	$ 2,530	$ 2,060	$ 260	$ 210	$8,800	$6,450	$ 620	$1,730	$11,720	$7,270	$2,060	$2,390
JUL	2,830	2,630	120	80	2,160	1,820	230	110	9,590	6,810	1,010	1,770	12,270	7,310	2,410	2,550
AUG	2,620	2,250	120	250	2,610	2,130	100	380	9,220	6,870	720	1,630	12,640	8,370	1,760	2,510
SEP	2,420	1,930	140	350	2,840	2,220	150	490	8,430	6,060	690	1,680	12,550	8,250	1,660	2,640
OCT	2,890	2,350	50	490	3,200	2,090	160	940	8,040	5,830	580	1,630	9,970	6,020	1,550	2,400
NOV	2,560	1,610	740	210	3,510	2,290	750	470	8,130	5,880	990	1,260	11,020	6,850	2,000	2 170
DEC	2,610	1,600	420	590	3,430	1,700	560	1,170	7,240	4,900	970	1,370	9,800	5,680	1,750	2,370
1981																
JAN	4,790	4,380	210	200	2,100	1,710	220	170	9,000	6,670	1,070	1,260	9,930	5,460	2,130	2,340
FEB	2,600	2,190	230	180	3,700	3,220	280	200	9,550	7,820	670	1,060	9,000	5,840	1,480	1,680
MAR	2,920	2,540	220	160	4,320	2,730	340	1,250	8,630	6,740	800	1,090	10,880	7,080	1,620	2,180
APR	2,720	2,260	50	410	2,520	1,940	100	480	8,280	6,450	700	1,130	9,760	6,690	1,380	1,690
MAY	2,500	2,190	90	220	5,120	3,790	170	1,160	7,920	6,090	810	1,020	8,870	5,270	1,570	2,030
JUN	2,830	2,230	90	510	2,630	2,010	170	450	7,850	6,080	720	1,050	9,160	5,650	1,410	2,100
Year-to-date																
1981	$18,360	$15,790	$ 890	$1,680	$20,390	$15,400	$1,280	$3,710								
1980	15,170	13,480	800	890	13,190	10,260	1,750	1,180								
1979	20,770	15,980	1,190	3,600	21,930	16,360	1,690	3,880								

Total is seasonally adjusted separately from components. Total, therefore, may not equal the sum of the parts.

Percent coverage is outstanding long-term commitments, received from investors, divided by the sum of outstanding end of month inventory and outstanding long-term commitments issued to borrowers, multiplied by 100.

Note: All series labeled 'non residential' are also inclusive of farm data.